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taken was a 'German asset', and therefore a legitimate form of reparation. The damage inflicted on the Austrian economy has been decisive in preventing its full recovery.

Russia's subjugation of East and South-east Europe has also been a severe blow to Austrian commerce. Not only has Austrian capital behind the Iron Curtain been confiscated; Austria also has very largely been cut off from her main market area. The Habsburg Empire in its economic aspect represented the material interdependence of the peoples of the Danubian basin. It was natural, therefore, that after the Empire had collapsed Austria should maintain her economic ties with the Succession States. In 1937, 27 per cent of Austria's exports went to the five eastern countries behind the Iron Curtain that are now known as the 'People's Democracies', and 31·5 per cent of her imports came from them. The corresponding figures in the summer of 1952 were 12·3 and 9·9 per cent. The decline is not due to any disinclination on Austria's part to maintain normal trading relations: in that year she signed trade treaties with both Poland and Hungary. Apart from foreign aid, Austria is dependent on her exports for the purchasing power with which to buy food and the equipment necessary for her recovery. Any serious contraction of her foreign markets involves a corresponding setback in her economic revival.

Austria's problems were further increased by her geographical position. After the War, Russia controlled the Danube and seized the steamers and barges belonging to the Danube Shipping Company. With no immediate access to the sea, therefore, Austria was entirely dependent on land communications and the availability of transport for her vital coal supplies and a large proportion of her food. She had less flexibility than better-placed countries like Germany in her search for new trading partners, when her industries gradually revived and she found her old markets closed to her. These difficulties were increased by the acute transportation crisis in Europe after the War, due to the shortage of locomotives, railway trucks, and road vehicles.

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sufficient, the black market was in luxuries, and the people, on the whole, were law-abiding. The problem therefore was primarily one for the police. In Austria rations were insufficient, the black market was in necessities as well as luxuries, and the consciences of the people were attuned to God and reason rather than to the law. The problem was thus rather a matter of economics, and in any case the Austrian police force was inexperienced and under strength.

The existence of the black market and the widespread use that was made of it were obstacles to the improvement of the food situation as a whole. The fact that foodstuffs were being sold at such extravagantly different prices made the farmers reluctant to increase their official deliveries. The black-market rates were excessive, but the official rates were beneath world levels and unfairly low for the producer. In spite of the efforts of the authorities, which included the threat of imprisonment, the farmers did little to help. Some of them dealt on the black market, and others found it more profitable to feed grain to their animals than sell it at the official price. During the difficult spring of 1946, the meat deliveries from the provinces to Vienna fell 90 to 100 per cent short of the allocations.

If the attitude of the farmers was neither helpful nor patriotic, it was the ineffectiveness of the whole system that was chiefly to blame. In these circumstances the Austrian Government's own measures to deal with the food problem were slow to show results.

There were two further reasons why the shortage persisted. Additional food supplies were required from abroad. But Austria's traditional sources of supply had been Hungary, Poland, and Yugoslavia, and immediately after the War these countries were not in a position to export foodstuffs. Hungary and Poland later fell increasingly under Russian economic influence. Secondly, Austria had not the resources with which to pay for imports. In terms of exports grain now cost nearly twice as much as before the War, and such foreign exchange as was earned was required to buy raw materials and equipment for industry. A vicious circle was in operation: exports

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were a pre-condition for the purchase of food from abroad, and undernourishment stood in the way of industrial recovery.

The food problem remained serious for at least three years. In 1947 it was often found impossible to honour the inadequate basic ration scales of 1,500 to 1,600 calories, and medical inspections established that nearly 50 per cent of Viennese school children were under-nourished. Until 1948, when Austria had its first good post-War harvest, the population as a whole remained noticeably under-fed. By then most people's savings had already been spent and their mental and physical powers of resistance had been seriously weakened.

In spite of this melancholy story, great efforts were made to deal with the situation. Had this not been the case, the prolonged deprivation and distress of the Austrian people would have ended inevitably in political disaster.

In the autumn of 1945 it was decided to invite the United Nations Relief and Rehabilitation Administration to organize a supply programme for Austria. The way had been prepared in August, when the UNRRA Council had decided that as Austria was a liberated country there was nothing to prevent relief and rehabilitation operations being undertaken there, provided the occupying Powers approved. At the time, however, the necessary funds were not available. In November the immediate initiation of an UNRRA programme was urged, particularly by the United Kingdom, and before the end of the month an UNRRA Working Party had arrived in Vienna to obtain preliminary information regarding requirements. In December UNRRA headquarters, following a request from the Allied Council, authorized negotiations for an agreement with the Austrian Government, subject to the Council's approval. Brigadier R. H. R. Parminter, who had been serving since September as chief of the UNRRA Displaced Persons Operations in Austria, took over the duties of Chief of Mission on the 1st of January 1946 and conducted the negotiations. An UNRRA Bureau was set up in the Austrian Federal Chancellery early in the New Year to co-ordinate the transport, administration, and distribution of UNRRA supplies. On the

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Pig-iron	56·15	Leather Goods	62·80
Raw Steel	54·89	Textiles:—	
Raw Aluminium	104·36	(*a*) Yarn	32·48
Magnesite	56·09	(*b*) Fabric	39·49
Electric Motors	21·54	Total Agricultural Produce (by value reckoned in terms of 1937 prices)	44·00 [1]
Paper	48·76		
Cellulose	24·62		

Since 1918 foreign trade has been of vital importance to Austria. Before the War her foreign trade quota per head of population was one of the highest in Europe, and after the War it was of urgent importance that this state of affairs should be restored. The country was dependent on imports for most of its coal, for an essential part of its food supplies, for the raw materials for some of its key industries, and for much of the machinery and equipment necessary for its economic revival. Foreign exchange for the purchase of these imports had to be earned by Austria's own exports. This was clear to the country's political leaders as soon as the Government was formed, and every effort was made under the most difficult conditions to revive foreign trade with the least possible delay.

During 1946 a series of primitive barter agreements were signed with foreign countries, starting with immediate neighbours. On the 11th of February the Allied Council approved such agreements with Czechoslovakia and Italy. In June a contract was made between Austria and Poland by which 45,000 tons of Polish coal were to be exchanged for Austrian scythes and sickles. In November an important trade agreement came into force between Austria and France which provided for the exchange of specific goods and defined the arrangements for payment. As time went on, the barter type of arrangement gave way to more normal commercial agreements. By the end of 1947 Austria had signed treaties, in

[1] Of all Austrian economic statistics those for agriculture are the least reliable As regards actual produce, in contrast to produce for which the farmers submitted returns, the above figure is probably too low.

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addition to those that have been mentioned, with Switzerland, Great Britain, Belgium, Holland, Sweden, Hungary, Bulgaria, Rumania, and the British–American zone of Germany.

During the War Austria had been cut off completely from the outside world. So it was natural that in the immediate post-War years the bulk of her foreign trade should be with her neighbours. In 1946, 64 per cent was with Switzerland, Czechoslovakia, and Italy, as opposed to 23 per cent in 1937, and only 7 per cent with overseas countries, in contrast to 17 per cent in 1937.[1] The following year Switzerland easily headed the list, followed by Czechoslovakia, Italy, West Germany, and Great Britain.

With a view to stimulating foreign trade, the Vienna Fair of Austrian manufactured goods was revived in May 1946. It was held again in October, and henceforth became a regular feature of Austrian economic life. The Spring Fair was a success. It aroused foreign interest in trading possibilities with Austria and produced orders from abroad. The Autumn Fair was visited by a million people, including 5,000 foreigners, and was a great stimulus to exports.

In spite of these efforts, improvement in Austria's foreign trade was slow. Commercial imports and exports in 1947 amounted to only 24 per cent and 26 per cent respectively of the 1937 level, after allowance had been made for the changed value of the schilling. The situation was made more serious by the alteration of the terms of trade to Austria's disadvantage. The foodstuffs and raw materials that Austria imported had become more expensive, while the finished goods she exported had become cheaper. Consequently, in 1947 Austria would have to export nearly twice as many finished goods as in 1937 to pay for the same quantity of grain. On the other hand, the improvement in foreign trade during the course of 1947 had been considerable, the figures for the second half of the year

[1] These figures refer to commercial foreign trade only. They do not include imports brought in by UNRRA or under the official or voluntary relief schemes of foreign States.

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being about 68 per cent better than for the first half. This was due partly to the fuel crisis in January and February, but it represented also a fundamental change for the better.

Such briefly was the state of the Austrian economy shortly before Marshall Aid began.

A long-term programme for Austrian economic recovery could have only one aim: to achieve self-sufficiency on a lasting basis. Yet the statement of such a simple objective in 1948 was a very small contribution to the solution of the problem. The situation at the time was so critical and exceptional as to make the quiet pursuit of a long-term plan neither desirable nor practicable. Austria's first requirements were food and the raw materials and equipment necessary to rebuild her industries and her export trade. These needs had to be met at all costs and to a large extent took precedence over the consideration of priorities for the future. The future itself was so uncertain as to make too much regard for it foolish. There were three major questions which no one was in a position to answer, however confidently he might speculate. How long was Russia to control Austrian oil? How soon was Austria to regain her political independence? And what kind of Europe would she find herself in when she was free? The enigma of the future is the whole world's burden. But at present it centres round the division of mankind into two great camps, and those on the dividing line between them are especially conscious of it.

In these circumstances the natural tendency to take the short-term rather than the long-term view, to prefer economic tactics to economic strategy, could be justified in some measure on rational grounds. Certainly, in drawing up an ERP[1] plan for Austria, the American authorities, on the one hand, and Austrian statesmen and economists, on the other, took full account of existing circumstances and of the urgency of present claims, sometimes inevitably at the expense of long-term considerations and of the well-conceived ideas of theoretical economists.

[1] European Recovery Programme.

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439 185 A further point that weighed with the planning authorities was the state of the European and world markets at the time. The main demand was for investment goods with which to carry out reconstruction programmes. Few countries had much to spend on anything but bare necessities. The prices of primary goods were therefore high, while secondary goods were relatively cheaper. The pre-War Austrian economy, with its emphasis on consumer-goods production, would have been in a weak position in the post-War world, and for the time being the war-time transformation proved a blessing. Pig-iron was one of the main exports in 1947 and 1948, and iron goods headed the list of exports in 1948.

185 Closely connected with the question of markets was the problem of the large industrial plants left behind by the Nazis. Some held that the heavy industries endangered the country's economic future, and that Austria's true destiny was to concentrate on the development of her natural resources and on the craftsmanship and design for which she was already famous. Money spent on the development of heavy industries would in the long run be wasted, because the Linz works could not hope to compete with the industries of the foremost industrial countries, which were better placed from the point of view of transport and raw materials and had greater scientific and financial resources behind them. Others maintained that Austria's iron and steel industry should be concentrated in its traditional home. Donawitz in Styria already had the impressive plant of the Alpine Montan Company. It was closer to the ore of the Iron Mountain and to such coalfields as Austria possessed. Any capital available should be spent on the development of Donawitz. The country did not require and could not afford two different centres.

The position of the nitrogen and aluminium works was different. The whole output of artificial fertilizer could, if necessary, be absorbed by the home market. In the case of aluminium production, the determining factor was the availability of electric current, and the potential supply in Austria was more than sufficient.

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tourist industry in Austria, though it was not until 1950 that a substantial allocation of counterpart funds was first made. Help was needed for the rebuilding and modernization of hotel accommodation, for the construction of ski-lifts and cable railways in mountain resorts, and for the establishment of publicity offices and information centres abroad. The number of tourists from East and South-east Europe had fallen off considerably, while visitors from Italy, Western Europe, and North America were increasing. This meant that post-War tourists from abroad, on the whole, expected a higher standard of comfort and amenities than had been available in the past.

From an economic standpoint no country had a greater need than Austria for the assistance made available under the European Recovery Programme. In few countries, moreover, was the establishment of a sound economy as important from a political point of view. That these two considerations were appreciated by the Economic Co-operation Administration in Washington is shown by the fact that during the first year of Marshall Aid, Austria received a higher allocation per head than any other country. In the second year its share per head was exceeded by Holland only.

The establishment of the counterpart account made it possible for Austria to embark on a much larger investment programme than had previously been possible, at a time when war damage and the legacy of incomplete heavy industrial plant made such a programme particularly desirable. In 1937 only 6 per cent of the national income had been devoted to investment, while in the ERP years the percentage varied between 17 and 21. In the allocation of funds preference was given to projects which promised to improve Austria's trade balance within a short space of time, but this main principle had to be combined with the need to round off and complete, as far as seemed expedient, the great installations that had been left unfinished at the end of the War.

Direct aid was used at first mainly to import food and the raw materials necessary to enable domestic industry to resume production. As the general situation improved, it was possible

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457 to increase the proportion of raw materials imported and to help production by bringing in machinery and industrial equipment.

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The following figures show the total assistance given up to the end of June 1952 under the three categories and some of the main purposes [1] to which it was directed:—

	$1,000
A. Total Authorizations under Direct Aid [2]	632,401
Actual imports under Direct Aid include:—	
Food	248,579
Agriculture	64,047
Including:—	
Corn for Feeding	54,168
Fertilizers	5,642
Industry	148,083
Investments (Machinery)	50,042
Raw Materials	98,041
Including:—	
Wool	5,012
Cotton	41,161
Hides	8,707
B. Total Drawing Rights Granted under Indirect Aid	277,300
	Millions of Schillings
C. Total Releases from the ERP Counterpart Account [3]	8,036·3
Allocations include:—	
Government Investments	1,451·9
Including:—	
Federal Railways	796·4
Post and Telegraph Services	203·7
Roads and Bridges	174·4
Agriculture and Forestry	52·7
Federal Forests	32·6

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[1] Only details relevant to this chapter have been chosen.

[2] Prepared by the Austrian Institute of Economic Research from statistics of the Central Bureau for ERP Affairs; 31 March 1952.

[3] Figures prepared by the Austrian Institute of Economic Research.

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partly to the low Austrian prices, which themselves had contributed to the revival of the tourist industry, but even more to the black-market dealings in foreign exchange, often carried out by the wealthier tourists, which cheated the country of its legitimate earnings.

The ultimate test of Austrian recovery, however, was the extent to which the country had approached national solvency. The success of Marshall Aid could best be measured by its effect on the revival of Austria's foreign trade.

Since 1950 the level of Austrian exports has been much more satisfactory than during the preceding three years. Between 1947 and 1951 the volume of exports expressed as a percentage of the 1937 figure rose from 26 to 110. During the same period the volume of commercial imports increased from 24 to 87 per cent of the 1937 level. During the second half of 1950 there was for the first time a surplus of exports over commercial imports, although commercial imports did not nearly cover Austria's total needs, which were still in a large measure satisfied by ERP deliveries.

These results were achieved only as a result of strenuous Austrian efforts in the face of great difficulties.

One of the chief obstacles to trade revival was the loss of markets in East Europe. In the past, Austria's East European customers had been happy to take her consumer goods in return for such vital Austrian requirements as food and coal. But since the War they had been unable to provide Austria with the food that she needed, and, as part of Russia's economic plan for the area, had been endeavouring to build up their heavy industries at the cost of renouncing all imports but basic necessities. In 1937 they had taken nearly half of Austrian textile and clothing exports. In 1950 they took only 7 per cent. What they wanted were such things as steel, aluminium, and cellulose, for which Austria had little difficulty in finding markets and which she was only willing to deliver in return for such goods as food and coal.

Thus Austria had to find markets for her finished products elsewhere. It was not easy to do so in Western Europe, where

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competition was strong. She therefore made a determined effort to develop trading relations with overseas countries, more especially with North and South America, Asia and the Middle East. Commercial treaties were negotiated with the Argentine, Brazil, Uruguay, India, Pakistan, Indonesia, and Turkey, and a trade mission was sent to the Far East. Between 1947 and 1951 Austria's exports to non-European countries just about doubled, and in 1951 amounted to approximately 20 per cent of her total exports.

Yet, in spite of the general improvement, to which Marshall Aid had greatly contributed, Austria's foreign trade position was still far from satisfactory. Every year there was a substantial deficit in the balance of trade. In 1951 it amounted to $201,300,000, and in the first half of 1952 to $121,700,000. The deficits were covered in the early years of Marshall Aid by ERP payments, but, as these payments decreased, this was no longer the case. Furthermore, as has been seen, such invisible exports as the earnings from the tourist industry and railway transit services were very much lower than in pre-War days.

In common with other countries, Austria began to experience difficulties with her export trade in 1951. During the first half of 1952 the volume of her exports dropped by 10 per cent to approximately the level of 1937. This was due partly to the import restrictions imposed by foreign governments, but the main reason was the considerable rise in Austrian costs of production and prices, following the fifth Price–Wage Agreement of July 1951, while prices in other countries remained relatively stable. According to the index drawn up by the Austrian Institute of Economic Research, the prices of Austrian exports rose by 15·8 per cent between June and December 1951, whereas the average rise in export prices of other European countries during the same period, according to United Nations statistics, was only about 7 to 9 per cent. Even more sinister and significant was the fact that the share of Austrian exports in total European exports fell from 2·2 per cent in 1937 to 1·5 per cent in 1950 and 1951.

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From the economic point of view Austria needs the markets and supplies provided by her natural trading partners in Eastern Europe. She produces goods which they cannot easily obtain elsewhere, and they are a source of some of the fuel and food that she herself requires. Under normal conditions Polish and Czechoslovakian coal would be a natural exchange for the Austrian oil and oil-products that are now being confiscated by the Russians. The low cost of transport in trade between neighbours is an important consideration.

Diplomatically Austria is best suited to be a conciliator. Her size and exposed position both point to the same conclusion. The weight she could add to either side would not be sufficient to prevent hostilities. In any war between East and West she would be one of the first to suffer.

These considerations are appreciated by every Austrian statesman. One of the most striking speeches on the subject was made by President Renner shortly before his death. On the 23rd of October 1950, in an address to the Youth Section of the Austrian League for the United Nations League he said: 'More than any other European the Austrian can understand the peoples of Eastern Europe to whom he has been closely linked by many centuries of economic, intellectual, and social relations. It is the responsibility of Austrian youth to see that this advantage is used in the service of ourselves and of the whole of Europe.' President Körner expressed his convictions in actions as well as words. While Mayor of Vienna he accepted an invitation to Russia to attend the celebration of Moscow's 800th anniversary in September 1947, though he went as the city's representative, not as a private individual.

In spite of the intense disappointment caused in Austria by the Soviet attitude and policy since the War, for about five years the Austrian Government showed great patience and reluctance to take sides. Public complaints against the Soviet Element were usually expressed in general terms that might apply to any of the occupying Powers. A clear proof of the Government's point of view was its willingness in 1949 to

Center in order to safeguard and coordinate professional interests. The steady increase of economic productiveness is intended to be reached by fostering rationalization of managerial dealing and plants as well as by cutting down the cost of production. This too would promote Austrian export trade with an eye to reaching full compensation of export and import figures and thus ultimately to achieve an active balance of payments. In the matter of this problem it should, however, expressly be emphasized that such balance of payments--inasmuch as it has been achieved by new equipment and modernizing of Austrian industry initiated during the last years--can be reached only by and by. It was at a rather recent time that investments could be made in Austria (1950). Consequently, an efficient and satisfactory result from such investments, especially from the big investments, may not be expected before 1954 or 1955. Austria should be allowed, therefore, a reasonable interval of recuperation to overcome the handicap of its very precarious situation. Nor should it be overlooked that Austria, as a country which is strongly dependent on a wide range of imports, is extremely sensitive to all fluctuations and developments on the world markets. Each change on those markets of necessity and automatically has repercussions on the price level in the Austrian domestic markets.

It is certainly a matter of the highest importance for the further development of Austria that the chief foreign markets should be opened for the sale of Austrian products, and especially those which are the result of intensive development. The Marshall Plan having become obsolete, it will be possible in this way only to realize the adjustment of the balance of payments. A balance of payments would, without strongly hurting the social structure of the country, open the way towards the gradual abolition of trade barriers and restrictions, to the alleviation of foreign exchange impediments, and, thus, to a progressive integration of Austrian economy into that of the Continent and beyond that to the world at large. The extension of the foreign trade volume and the increase of the invisible export, chiefly the foreign tourist and transit traffic, are a means of realizing foreign exchange reserves required for financing Austrian imports and the maintenance of an adequate satisfactory volume of employment. The persevering energy and intrepidity of both of the responsible big parties of Austria have been leading the way towards the political and economic consolidation

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During the first year of the Marshall Plan assistance (1948-1949), out of a total of $4,875,000,000 allotted to participating countries for "Unconditional Aid," Austria received an amount of $217,000,000, and from "Drawing Rights" (conditional aid) $66,600,000 (out of $810,400,000). Austria had to make available to Greece, Italy and Sweden drawing rights amounting to $3,200,000.

To get an idea of the economic importance of Marshall Plan shipments for the Austrian economy, it seems most suitable to give the analysis of a one-year economic program. For this purpose the second Marshall Plan year has been chosen. The Austrian program for the year 1949-1950 was calculated to involve $252,200,000, of which $166,400,000 were provided under the direct aid and $85,800,000 represented drawing rights. The total imports for the period July 1, 1949-June 30, 1950 were estimated to amount to about $556,740,000 and were financed as follows:

	Million Dollars	
Marshall Plan--direct aid	151.95	27.3 per cent
Marshall Plan--drawing rights	82.20	15.3 per cent
Trade	295.70	53.1 per cent
Non-ERP dollars	23.89	4.3 per cent
Expenditures for freights and other "invisibles" were calculated at-	59.56	
They were financed as follows:		
Marshall Plan--direct aid	$14.45	
Marshall Plan--drawing rights	.60	
Trade	38.90	
Non-ERP dollars	5.61	
The Austrian payments balance for the second Marshall Plan year therefore totaled	613.30	

which were covered by means of:

Direct aid	166.40	27.0 per cent
Drawing rights	82.80	13.9 per cent
Trade	334.60	54.3 per cent
Non-ERP funds	29.50	4.8 per cent

Therefore, of the total imports during the economic year in question, 40.9 per cent were covered by ERP funds. 439 457

457 These means were expended as follows: after deductions for foodstuffs (direct aid: $68,000,000, drawing rights: $2,710,000), for agriculture ($14,390,000, drawing rights $7,300,000) and for tobacco (direct aid: $2,500,000), there remained for the industrial economy funds amounting to $66,260,000 out of the direct aid and $75,190,000 out of the indirect aid (total of $141,450,000).

457 Of this remaining total of $141,450,000, 648 $82,300,000 covered coal imports, of which $43,400,000 (or more than 50 per cent) were financed under drawing rights; $2,250,000 were taken from direct aid for a corner transaction to get coal from Poland. Imports of hides amounted to $11,300,000 ($4,000,000 were financed by direct aid allotments and $1,400,000 under drawing rights). Of these imports almost 50 per cent were financed with ERP funds.

For imports of raw materials and semi-finished goods (excluding coal), approximately $182,000,000 were set aside in the payment balance 1949-1950. ERP grants amounting to $55,000,000 covered 30 per cent of these imports. Including imports of coal, the percentage amounted to 38 per cent.

Of great importance were the imports in the investment sector. During the first year of the Marshall Plan only $12,000,000 (or less than 4 per cent of the allotted amount of $283,600,000) was provided for investment purposes. (During this period the need for foodstuffs was still great and represented 44 per cent of the total allotment.) The second Marshall Plan year, however, brought about an increase to more than 16 per cent, i.e., to $40,450,000 (direct aid: $31,600,000; drawing rights: $8,850,000) despite a reduction of 11 per cent in the total allotment ($252,200,000).

2. The Financing of the Reconstruction.

a) Counterparts and their use.

648 According to Article IV of the bilateral 652 agreement between the United States and Austria of July 457 2, 1948, covering economic cooperation, schilling proceeds derived from domestic sale of imported Marshall Plan goods must be deposited with the Austrian National Bank in a special account (in favor of the Federal Ministry of Finance). The government has utilization of these funds only with the approval of the ECA in Washington. In accordance with the Foreign Aid Act, No. 472 of the

457 [511] 433 There is no doubt, however, that the desired higher standard of living requires greater accomplishments from the economy if, as is the case today not only in Austria but also in other ERP member countries, edible foodstuffs, raw materials and machinery are not to be continuously supplied by foreign aid. In this connection it is useful to recapitulate the value of such aid. Thus the total value of direct and indirect aid, congressional aid, interim aid, surplus goods, gifts, etc., amounted in 1948 and 1949 to approximately 300 million dollars yearly, an amount sufficient to cover the deficit of the payments balance up to now. In other words, the Austrian economy received more than 6 billion schillings which increased the gross national product available for consumption and industrial investments by 20 per cent. Foreign aid in 1950 amounted to 200 million dollars or 4 billion schillings and in 1951 to 100 million dollars.

433 As a matter of fact, production and productivity increased rapidly during the last years. However, this rapid increase was due to the extraordinarily low starting point. It is true that present industrial production exceeds the prewar level by 40 per cent, but it is a result of using about 50 per cent more than in 1937. At the end of 1950 the individual output index of both industrial as well as agricultural labor amounted to 90. Today, the task of increasing productivity rapidly is far more difficult since, in addition to diminishing foreign assistance, any reopening of idle capacities and procurement of additional raw materials and coal is almost impossible. It follows that every percentage of productivity to be gained requires greater efforts than before.

433 439 454 In connection with the above, there arises in Austria a specific coordination problem with regard to output gains already achieved in other nations, the question of cost computation. (Compared with Austria's present production ability the American, Swiss, Swedish, and English national economies, during 1949, furnished respectively 7, 4, 3 1/2, and 2 1/2 times as much goods and services per capita. This fact is intensified by the progressive industrialization of the previously agricultural countries of southeastern Europe.) If Austrian manufactured goods (as producers of foreign exchange, and therewith as guarantors of sufficient raw materials, employment and living standard) are to be competitive on international markets, the question of decreasing production costs per unit becomes imperative. Such a decrease, excluding developments beyond the control of

plant managements, can be achieved only through accumulation of an adequate yearly (savings) investment percentage (during 1950 investments in plants, structures, rolling-stock, equipment, etc., amounted to 20 per cent of Austria's national income, against 6 per cent in 1937; the 1950 investments were to a large extent the result of foreign assistance), as well as technical progress, rationalization of plant operations and adoption of modern psychological working principles. 433 439 454

Only such a procedure assures a genuine increase of the real income. However, whether an increased production output is followed by a decrease of prices or by an increase of wages (raising the living standard) or whether necessity demands a combination of both is problematical. [434]

On the basis of a favorable world-wide political scene it is hoped that Austria will realize her economic program as worked out with the help of international experts. Better technical equipment will lower the individual wage quota, thereby establishing a more favorable competitive basis. Thus, together with a transfer of skilled labor to production of export goods, the desired adjustment in the balance of payments will be achieved. In this connection the resettlement drive, initiated by the ERP, furnished a possibility to shift needed manpower to plants short of help. The higher real wages, resulting from an increased productivity, will then provide a basis for the accumulation of savings capital needed for additional investments. However, considering the special position Austria occupies, it will be necessary to grant her a breathing spell for achieving her economic aims. 433

d) Budgetary developments.

Within the scope of combined reorganization procedures, special attention is directed towards the balancing of the budget. Due to the large expenditures covering the reconstruction of public enterprises and administrative organizations damaged by the war and the increase in economic tasks of the government, e.g., occupation costs and the expenditures in connection with "Auslandsfürsorge" (welfare of the DP's, expellees, refugees), the consolidation of the budget (in spite of a rising national income) was only partly possible in 1949 and 1950 inasmuch as fluctuating demands exceeded narrow tax receipts. 652 727

The stagnation of the capital market, which makes the financing of comprehensive investments on the open market difficult now, made special forms of interim-financing necessary for Marshall Plan deliveries. This task the banks and the National-bank undertook through their financing techniques. 652 454

Agreement has been reached by the former Ministry of Properties and Economic Planning, the Ministry of Finance, the Nationalbank and credit institutions for the financing in schillings of Marshall Plan deliveries. Inasmuch as outside means (credit) were required, the following categories of credit have been set up with regard to the different currency policies: 652 457 439 452 453

1) Credits for the import of raw materials (wool, cotton, hides, leather, metal, chemicals, etc.);
2) Credits for financing the cost of manufacturing (Umwandlungs kredite);
3) Credits to cover investment needs (Aufbaukredite).

For the first two categories the applicant for credit has to prove that all deliveries will take place within the scope of the Marshall Plan. To cover credits for raw materials provision is made for payments in goods with terms of three months, which may be extended three times to a maximum twelve months. (A special priority was provided originally for the delivery of textile raw materials of any kind and, furthermore, for hides, leather, furs and tannic acid, as long as the accounts were settled prior to June 30, 1949. This measure aimed to spare the buyers of goods losses in interest caused by delays in carrying out the Marshall Plan. As a concession a 60-day delay in payment of the amount in schillings was fixed so that in these special cases the validity of the credits was prolonged up to a maximum of 14 months.) The rate of interest for raw material credits has been fixed at 5 per cent net. The deliveries of semi-manufactures are treated in the same way if they are further processed by Austrian industrial plants. These letters of credit may be refinanced by the Nationalbank.

The covering of manufacturing costs (Warenumarbeitungs- und Umwandlungskredite) is provided for by ninety day drafts which may be extended twice, i.e., a maximum of nine months, if the buyer of goods can prove that these larger deliveries of Marshall Plan goods to be manufactured by him cause a sharp increase in the production so that additional means of production are necessary. The rate of interest is 6.5 per cent net. These drafts may also be refinanced at the Nationalbank.

452 652 453 [454] The financing of credits for investments (Aufbaukredite) is likewise provided by different types of drafts (three-months validity) until such time as definite solutions (consolidation) will be possible in the form of obligations on the money market. The rate of interest is 4.5 per cent net. The examination of such credit applications lies with a commission consisting of representatives of the Federal Chancellory-ERP-Central Bureau, the Austrian Nationalbank, and representatives of those banks which grant the credits. Final approval rests with the "Kreditlenkungskommission," an advisory committee of the Federal Government and created by the federal law of July 3, 1945, to direct public and private credits. Members are nominated by the Federal Government.

453 The following banks are presently handling reconstruction credits: Creditanstalt-Bankverein, Vienna, Innsbruck; the Bank for Carinthia, Klagenfurt; the Bank for Upper Austria and Salzburg, Linz; the Oesterreichische Länderbank AG, the Hypotheken- und Creditinstitut, Vienna; the Bankhaus Schoeller and Co., Vienna; the Arbeiterbank AG, Vienna; the Genossenschaft-Zentralbank AG, Vienna; the Girozentrale der österreichischen Sparkassen, Vienna; the Gewerbe- und Handelsbank AG, Vienna.

439 457 652 With the activation of the multilateral balance within the frameworkof the European Payments Union after October 1, 1950, some changes took place in the financing of Marshall Plan imports. They, however, refer to the mobilization of the so-called "Initial Credit Position" which serve to cover the total deficit against all ERP countries. The carrying out of goods exchange on the basis of direct aid was not influenced by these changes.

To avoid difficulties in financing raw material imports from Marshall Plan countries, and in order not to restrict the potentialities of financing which the importers had been allowed up to this date, the Austrian Nationalbank decided, instead of refinancing goods imported out of the indirect aid (Drawing Rights), to discount ninety-day drafts of the banks. This forms the foundation of the means for financing goods imported from ERP countries. These drafts are issued by credit institutions and are drawn against the importer. The refinancing of these drafts takes place if the payee, in the opinion of the Austrian Nationalbank, possesses sufficient credit standing, and if the imports, as alread

explained, come from ERP countries and comprise such goods as were, up to this date, to a considerable extent under indirect aid and were refinanced previously by the Nationalbank. There were special lists for all goods in question. 439 652 457

The cashing of these drafts takes place under the same conditions which apply to imports of semi-manufactures out of ERP funds; the Nationalbank discounts the incoming drafts at the prevailing bank-rate (now 3 1/2 per cent); other banks have a rate 1 1/2 per cent higher.

The total amount which all credit institutions can present in such drafts does not exceed the amount of the refinancing granted for financing imports out of indirect funds.

3. The Structure of Production.

a) Principles of industrial investment.

In accordance with the principles of ECA, ERP funds are used only to finance investments which serve to balance payments in the shortest possible time, that is, investments which: 1) bring in foreign currencies (by starting new or extending existing production of export goods); 2) save foreign currencies (production of goods important to internal supply, which previously had to be imported from foreign countries, or by improving their competitive position); 3) cause an essential increase in the total economic productivity, i.e., a reduction of production costs and increasing the ability of the Austrian economy to compete with foreign countries. 652 454 457

When hostilities ceased in 1945, most of the industrial enterprises showed great impairment. This was due to: 1) extensive destruction during the actual fighting; 2) confiscation through which valuable equipment for production was removed after the end of the fighting, whereby functional coherence of production was disrupted; 3) changes in economic aims. Before 1945 (not considering the aims of wartime economy) a large number of enterprises were structurally organized on a broader economic territory; after the war, therefore, the industry of Austria had to return to the more specialized industrial capacities of the pre-1938 period; 4) an acute shortage of capital caused by amounts necessarily written off as war losses, funds lost as outstanding claims, etc. 433 727

Up to the end of 1949 approximately 9,000 agricultural machines, with a total value of 31.5 million schillings, could be bought out of counterpart funds. Through the formation of agricultural machine cooperatives (about 33) even medium and small-sized farms were able to share in the advantages of technical modernization. The progress of electrification in rural areas supplied light and current to 4,800 farms. Storehouses and freezer lockers have been built in fruit producing areas. In addition, dairies and cheese making plants have been erected from ERP funds.

Further investments in the agricultural sphere are being carried out in accord with the investment program of 1950-52. For these purposes 270 million schillings were released from counterpart funds in 1950 (i.e., 43.6 per cent of the 620 million schillings provided in the agricultural priority program, or 34.6 per cent of the total of 780 million schillings provided in the whole program).

In forestry (exports), which is of paramount importance to Austria, the approximate prewar level of wood and timber output and supply has been achieved through various rationalizations and especially better means of transport and better roads. In 1948 the timber output was 8.24 million cubic meters (Festmeter); in 1949 already it was 9.24 million cubic meters; in 1950 the output could be increased to slightly over 10 million cubic meters.

The increasing production of timber and the stoppage of exports of undressed timber made it possible to supply sawmills and timber finishing plants with bigger quantities of wood in 1949 and 1950 than prior to the war. In 1949, 2.50 million cubic meters of whole timber were planed. In 1950 the amount was 4.41 million cubic meters as compared to 3.14 million cubic meters in 1937. The paper, cellulose, wood fiber and pulp industries could be provided to an increasing extent with all necessary raw materials (especially wood pulp); thus, covering not only the domestic needs but also enabling Austria to gain a foothold in former export markets.

The forestry and sawmill industry received 90 million schillings in 1950 out of counterpart funds and, in addition, 22.5 million schillings in December 1950 to be carried forward for use in 1951.

III. AUSTRIA'S POSITION IN EUROPEAN ECONOMIC INTEGRATION

● 439 ### A. The Structure and Development of Foreign Trade

1. General Developments, 1945-1949.

Although exports in 1948 and 1949 could be increased, they did not cover more than 51 per cent of the total imports in 1949. The value of the exports in 1948 was double and in 1949 almost four times as high as that of 1947. This sharp increase is due partly to price increases, but at constant prices, too (basis 1937), the 1947 exports were exceeded in 1948 by 95 per cent and in 1949 by 165 per cent. The export volume, therefore, has increased more than the services of the other branches of the economy. However, it was still below the prewar level in 1949. Based on the quantum index 1937 = 100 as worked out by the Institut für Wirtschaftsforschung the level in 1947 reached only 70.3 per cent.

Development of Exports
(According to Statistische Nachrichten and the lists of the Oesterreichisches Institut für Wirtschaftsforschung.)

Categories	1937	1947	1948	1949
	Value in Millions of Schillings			
Livestock and foodstuffs	51.0	19.2	32.6	33.0
Raw material	363.9	202.5	637.2	1275.2
Finished goods	802.0	620.7	1313.9	1920.3
Total	1216.9	842.4	1983.7	3228.5
	Volume Index Figures (1937 = 100)			
Livestock and foodstuffs	100	13.8	16.7	15.6
Raw material	100	21.4	50.8	77.5
Finished goods	100	29.6	54.2	70.5
Total	100	26.5	51.6	70.3

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Exports were primarily timber, paper, iron ore, iron goods, and nitrate of lime and ammonia. Austria, for the most part, exported raw materials and semi-manufactures. In the prewar period approximately 65 per cent of the exports were finished goods, but this proportion has declined since 1945 and was only slightly higher than the quota for all other export goods at the end of 1949. It should be taken into account that almost all countries, in their commercial agreements, demand a certain percentage of the Austrian export goods to be raw materials and semi-manufactures. Only under such conditions are they prepared to make concessions for the import of finished goods. On the other hand, the Austrian commercial policy is interested most in the export of products of high labor content. As to the mode of fulfillment of these agreements, the compensation contract system prevailed in the first years after 1945. Later a kind of mixed system arose which provided for fulfillment of exchange of goods on the basis of clearing through a series of commercial agreements (without excluding, however, the compensation feature). In the structure of commercial agreements the tendency toward the clearing system exclusively is quite evident since 1949.

The regional distribution of exports gradually improved. In the period immediately after the war the traffic in goods was restricted mainly to the nearest neighboring countries, especially Switzerland, Germany, Italy, and Czechoslovakia. Since that time it has developed in a concentrical pattern to more distant areas. In the years 1946-1949 the proportion of the exports to immediate neighboring countries sank from 80.3 per cent to 61.2 per cent, 52.2 per cent and 50.3 per cent; and the proportion of non-European areas increased from 7.9 per cent to 10.3 per cent and 13.9 per cent.

In 1948 and 1949 the increasing importance of overseas areas to Austrian foreign trade was due to the progressing normalization of world trade conditions and the systematic extension of commercial agreements. Since one could observe, however, a sharpening of competition on the world market since 1949, it was the aim of the Austrian economic policy to lower production costs by progressive investments in rationalization of enterprises themselves, in higher utilization of their capacities, and in the transfer of production powers from consumer goods to export goods. It is a fact that exports to the ERP countries, which received 69.5 per cent of Austrian exports in 1947, sank to 66.5 per cent in 1948 and to 59.9 per cent in 1949.

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By this relative reduction of exports to ERP countries the east and southeast European countries profited (and to a lesser extent the overseas areas). The exports to countries of the East bloc, including Russia, increased proportionally from 19.6 per cent in 1947 and 1948 to 25 per cent in 1949. This did not reach the prewar level of 33.2 per cent, however. Better conditions also prevailed for exports to the Near East. In the southeast of Europe German competition was to be observed to a rising degree.

Imports in the last few years are almost on prewar level. The official statistics on commerce show the imports in the years 1947-1949 as follows.

Commercial Statistics on the Development of Imports (excluding imports from direct aid, relief, and surplus goods)

Categories	1937	1947	1948	1949
	Value in Millions of Schillings			
Livestock and foodstuffs	404.8	203.8	446.2	925.4
Raw material	620.2	719.2	1478.7	2060.9
Finished goods	428.7	268.2	677.4	1490.7
Total	1453.7	1191.2	2602.3	4477.0
	Volume (quantum-index) (1937 = 100)			
Livestock and foodstuffs	100	8.5	16.8	34.4
Raw material	100	35.3	58.6	81.0
Finished goods	100	23.2	54.9	109.0
Total	100	24.3	45.9	76.3

These current statistics, however, cover only part of the total imports. They do not contain all deliveries from direct ERP aid (excluding coal and some other "off-shore" purchases, i.e., purchases from direct ERP aid outside the continental USA) as well as most of the other aid-deliveries (excluding deliveries within the framework of drawing rights and pound-sterling credits). The official statistics give the total of the additional ERP imports as 1952 million schillings in 1949. If one adds further relief aid (Liebesgaben) in the amount of 9.3 million dollars and war surplus goods with a value of 0.7 million dollars

there is an increase of the total imports to 6366 million schillings in 1949. In the structure of imports coal and foodstuffs formed a relatively important part in 1948 and 1949. The imports of primary foodstuffs (such as bread grains, flour, fats, sugar, meat, livestock and leguminous plants) were 111 per cent of the 1937 figure in 1947 and increased to 113 per cent and 122 per cent in 1948 and 1949, respectively. 439

The high demand of the Austrian industry for coal (especially hard coal, blast furnace coke and coke) could only be covered by sufficient coal imports since the demand is far higher than in the prewar period. The volume of coal imports was 69 per cent and 88 per cent more in 1948 and 1949, respectively, than in 1937. Although the continuing extension of electric energy may allow lower coal imports, the proportion of coal imports to the total imports will remain higher than the prewar level due to structural changes of the Austrian industry. The import of foodstuffs and coal constituted in part a handicap to the import of raw materials. Of the total raw material imported (excluding coal) in 1937, similar imports reached only 25 per cent in 1947, 64 per cent in 1948 and 85 per cent in 1949, in which year total imports exceeded the prewar level.

Austrian industry in this period, therefore, [433] was supplied with foreign raw materials to a lower extent than in 1937. That it was able to exceed prewar production despite this condition is mainly due to the favorable development of industries producing production means (based on domestic iron ore production). Moreover, foreign raw materials, aided by the investment program, could be replaced in part by domestic products (such as rayon staples). The extraordinary high quota of the import of finished goods can be explained by the high demand for invesment goods in the country itself, which could be covered only partly in domestic production.

The structure of imports is regionally very different from that of the prewar era. Whereas in 1937 the state regulation of foreign currencies, fixed quotas and clearing agreements formed an elastic system which was capable of using the cheapest sources of imports, in the first years after the war imports were forced into quite different direction by intensified bilateralism (which has been relaxed since by increasing 439 457

liberalization and by the European Payments Union) and by special conditions attached to foreign aid, by differentiated currency rates and by subsidies for imports. In 1937 only 6 per cent of all imported goods came from the USA, but in 1949 this figure was 29 per cent. In the same period imports from eastern and southeastern Europe was reduced from 40 per cent (in 1937) to 18 per cent (in 1949). As the high import quota from the USA could be maintained only as long as American aid was forthcoming because of the dollar shortage, Austria has to face the very difficult task of transferring import areas for necessary foodstuffs and in part for raw materials also, in the next few years. She must turn to regions which not only are able to deliver but also ready to take Austrian goods in exchange.

If we compare the statistics for imports and the direct ERP aid of the year 1949 (amounting to 6366 million schillings) to the exports (amounting to 3229 million schillings), an import surplus of about 3137 million schillings results (according to the former exchange rate it would be 299 million dollars). Including the import of relief gifts (Liebesgaben) and surplus goods the deficit of the commercial balance increases to 309 million dollars, or 52 per cent of total imports. Out of the total deficit mentioned (3137 million schillings) 734.9 million schillings go to imports from Europe (ERP countries), 304.9 million schillings to imports from non-ERP countries, about 181.8 million schillings to imports from overseas areas of the ERP countries and the sterling-bloc. The bulk (1915.2 million schillings) goes to the USA and Latin America.

The transfer of the center of imports to the USA is a clear consequence of the high aid from foreign countries. The significance of these figures is: the reconstruction of the Austrian economy, a reasonable standard-of-living and a high level of employment, aims which Austria must attain after 1952 by itself (that is to say, by higher exports and increased productivity).

This struggle is the more important as Austria still lags behind in terms of the overall development of European trade. Whereas the volume of all European countries, including Germany, already reached 73 per cent and 87 per cent of the prewar level in the years 1948 and 1949, respectively, the level in Austria was 52 per cent and 70 per cent in the same two years.

2. Developments in 1950.

As a consequence of the Korean crisis in its impact upon the world-wide state of business since June 1950, the development of Austrian foreign trade in 1950 shows an extraordinary increase of exports in the last four months of the year. To be sure there is also a considerable increase in imports, but the extent lags behind the increase of exports. From August to December, the value of imports, including ERP, showed an increase of about 29 per cent. The increase in exports was about 54 per cent for the same period. The debits in the trade balance, therefore, sank from 150 million schillings in August to 71 million schillings in December.

The total value of imports in the previous year was 9.2 billion schillings. This includes (1) the commercial imports, including imports of goods under drawing rights up to June 1950 and under the initial position for Austria since July 1. These payments are carried out multilaterally through the Bank of International Balance of Payments in the European Payments Union; the amount comes to 7.1 billion schillings. (2) Imports within the scope of direct aid under ERP in the amount of 2.1 billion schillings.

Compared to 1949 the import of goods from foreign countries has increased by almost 50 per cent in total value (the value in 1949 was 6.4 billion schillings). This increase, however, was actually due to the rise in prices (as is shown clearly by the quantum-index). On the other hand, there is a structural change in imports as the imports of foodstuffs sank from 33 per cent (1949) to 26 per cent (1950) of the total imports. The proportion of finished goods (mainly the import of investment goods) rose from 27 per cent to 31 per cent.

At the top of the rank of the countries from which goods were imported in 1950 was the USA with an import value totaling 2.1 billion schillings; 1.9 billion schillings (88 per cent) went toward direct aid. In second place is West Germany with 1.5 billion schillings. Then follow Great Britain (712 million schillings), Italy (664 million schillings), Poland (417 million schillings), Czechoslovakia (399 million schillings), Switzerland (380 million schillings), the Benelux countries (288 million

439 schillings), and the Netherlands (248 million schillings). Noteworthy also are the imports from France, Yugoslavia, Hungary, Turkey, and Sweden.

As to the goods imported, 16 per cent (1.4 billion schillings) consisted of fuel, imported mainly from West Germany, Poland and Czechoslovakia. Next in order are electrical and other machines and apparatus (814 million schillings) from West Germany, the USA, Switzerland, Great Britain, and the Netherlands. The grain imports, amounting to 786 million schillings, come almost exclusively from ERP deliveries of the USA. The import of wool reached a value of 379 million schillings, that of cotton 329 million schillings; wool was imported mainly from Great Britain, cotton in part from the USA. There were also significant imports of sugar in the value of 368 million schillings out of which 109 million schillings were within the scope of ERP. Iron goods were imported in the value of 265 million schillings. Among the foodstuffs, edible fats and oils with a total value of 218 million schillings were imported (the larger part of this amount, i.e., 64 per cent, coming from ERP funds).

The exports reached a total value of 6.5 billion schillings. Germany was the top-ranking buyer with 994 million schillings, Italy second with 872 million schillings. Then followed Czechoslovakia (397 million schillings), the United States (363 million schillings) and Switzerland (347 million schillings). The delivery of goods to Trieste in the value of 341 million schillings were mainly for transit to the Levant. Other exports went to the Netherlands (289 million schillings), Yugoslavia (260 million schillings), Great Britain (244 million schillings) and Hungary (237 million schillings). Among the overseas countries (excluding the USA) there is Argentina with 134 million schillings. In addition to the Austrian heavy industry succeeded in exporting to Egypt, India and Pakistan to an increasing extent.

The most important export goods in 1950 were iron goods (987 million schillings), timber (981 million schillings), paper (392 million schillings), raw iron (343 million schillings), wood pulp (280 million schillings), nitrate of lime and ammonia (there were no exports of nitrate of lime and ammonia before the war; the exports come exclusively from the österreichische Stickstoffewerke in Linz with a monthly production of approximately 30,000 tons)

(271 million schillings), cotton goods (204 million schillings), fireproof bricks (200 million schillings) and glassware (201 million schillings). 439

The total index of import prices in 1950 was 627, that of export prices 531 on the basis of 1937 = 100. The corresponding figures for 1949 were 407 and 387. The increase of prices for import goods, therefore, were on an average far higher than was the case with exports (54 per cent as against 37 per cent).

A comparison of the commercial imports with exports for 1950 shows an unfavorable balance of 576 million schillings (as against a balance of 1.2 billion schillings in 1949). Including gratis deliveries within the scope of the ERP, the deficit, however, increases to 2.7 billion schillings (in the previous year the deficit of the total exchange of goods was 3.7 billion schillings). The deficit in the exchange of goods with foreign countries was covered in the first half of 1950 by drawing rights and in the second half of 1950 by using up the Austrian credits at the Bank for International Payments after the agreements with the European Payments Union had gone through.

Further betterment of the Austrian economy is intended through the following. The Export Advancement Law (Ausfuhrförderungsgesetz) provides granting medium and long-term credits up to a limit of 500 million schillings under state guarantee. [Up to March 23, 1951, the Nationalbank received applications for credits totaling 174.5 million schillings; 79 million schillings of which represented refinancing. As the state guarantee comprises only 80 per cent of the export credit, 77.6 million schillings (80 per cent of the 97 million schillings) were tied up on the key-date in accordance with the Exporterförderungsgesetz, i.e., 15 1/2 per cent of the maximum of 500 million schillings.] The Austrian Export Funds A. G. (Oesterreichische Exportfonds A.G.) will support exports of craft goods to hard currency countries through credits. They will start with 25 million schillings. [The first interim balance of the corporation shows credits amounting to 16.4 million schillings, i.e., about two-thirds of the export funds (25 million schillings) at the end of March, 1951.] On October 5, 1950, an agreement was reached for simplification of exchange rates together with measures for 652 [433] 457

457 raising the productivity of the whole economy.
652 Toward the end of the year a change in the problems concerning the whole economy could be observed owing to increasing tension in the balance of foreign currency and payments.

B. The Austrian Contribution to Freer Intra-European Trade.

439 Although exports increased in the last few
652 years, they could not, as the preceding figures have
457 shown, cover the total imports in 1950. The difference was covered again through foreign aid (ERP grants) and through credits, as was the case in earlier years. Thanks to foreign aid, which financed the biggest part of the imports of foodstuff, raw material and coal, the Austrian economy had a total import which, by 1949, exceeded the prewar level in volume and covered the demand of imports most urgent for reconstruction purposes.

In spite of this fact, the balancing of foreign currencies, with regard to the United States as well as to most other countries, could not be attained by means of market transactions. In contrast to the progressive relaxation of state controls in the domestic economy, the demand for imports had to be limited by import licenses and allotments of foreign currencies to the amount available for the import of goods. Regulations and procedures of this control of the foreign trade were determined by the law of Foreign Trade Traffic (Aussenhandelsverkehrsgesetz). (This law was amended in April 1951 owing to special developments caused by the necessary laws of economic policy.) The partial lifting of intra-European trade barriers [hereafter referred to as "liberalization" by the author] started in the fall of 1949, brought problems of trade policy and of foreign currencies.

In September 1949, the council of OEEC (Organization European Economic Cooperation), in Paris, decided to liberalize 50 per cent of the foreign trade between the European ERP countries in order to create a simplified economic area. Austria agreed with the principle. But it had to be very careful in abolishing import restrictions in view of developments in its balance of foreign currencies, otherwise the balance aims would have been endangered. Thus, for

liberalized goods, a number of administrative simplifications in the import precedures were created (exclusion of the obligations for a license by the "Aussenhandelskommission"). The import of these goods is dependent upon the momentary availability of foreign currency. Austria's special situation was also recognized by the OEEC, Paris, which agreed that the measures taken corresponded to the actual situation. In spite of this, Austria made a reasonable contribution toward the integration of the whole European trade policy as proof of its goodwill. For example, in the foodstuff sector, goods with an import value of 10.5 million dollars, i.e., 32 per cent of the commercial imports from ERP countries, were liberalized in October 1950. In liberalization the emphasis lies with the raw material sector, in which 45.5 million dollars (or 84 per cent of the imports from ERP countries) were liberalized. With regard to the accentuated investment policy, moreover, a number of items of the finished goods category were freed from import restrictions. In volume the liberalization represents goods amounting to almost 86 million dollars, i.e., a liberalization of 60 per cent of the imports from ERP countries.

From the standpoint of the economic policy, liberalization measures are characterized as follows: in the foodstuffs category, 70 per cent of those foodstuffs used for human consumption were liberalized, whereas agricultural products or those which are produced in sufficient quantities in the country itself were excluded from liberalization.

Furthermore, to increase the productivity of agriculture, almost 100 per cent of fertilizers and chemical products for agricultural use were liberalized. The very important fuels were freed from import licenses up to 80 per cent and iron alloys almost up to 100 per cent. In the same way, almost 100 per cent liberalization was made for non-iron metals and concentrates and raw alloys therefrom, as well as the important demand for raw materials by the textile industry, which cannot be supplied from the country itself (80 per cent).

A high quota of liberalization is shown in the category of finished goods, especially of chemical finished products (with about 70 per cent) and of synthetic fibers (with about 90 per cent). With regard to the extensive demand for investments, machine tools for metal production were liberalized up to 90 per cent and the demand of various industries by more than 75 per cent.

439 457 652 In order to make the liberalization fully effective it is necessary to abolish foreign currency restrictions for goods which have been liberalized and that is where the difficulties arise. Although the Initial Position in the value of 80 million dollars granted within the scope of the European Payments Union supports this effort through a relaxation in the foreign currency situation, it did not effect a general solution of these problems. The so-called dollar problem still exists in a very real sense.

[648] The European Payments Union, of which Austria is a full member, was put into force on July 1, 1950. It is the logical continuation to the reorganization of the European Payments system, started by the OEEC with the "off-shore" and drawing rights system. Above all, it was to further the lifting of trade barriers between the ERP countries and to carry out the principle of non-discrimination, the equal treatment of all parties within ERP Europe.

These measures, however, did not solve the precarious dollar problem for the ERP countries and Austria since it was not the aim of the European Payments Union to promote European exports to the USA and other hard currency countries outside the ERP. Also the currencies of the EPU countries are interconvertible but not against the dollar. For Europe, therefore, the dollar remained a very rare and hard-to-obtain currency.

A certain relaxation was caused by the new developments in the second half of 1950. The relaxation of the dollar shortage was not caused by the combination of the individual elements: the European Payments Union, liberalization and integration. Rather, due to external causes, it was a consequence of world economic changes which, owing to the conflict in the Far East, opened new markets of peacetime demands to those countries not directly involved in defense measures. (The dollar shortage is essentially a special structural problem of world economy, the causes of which go far back into the war years and are above all connected with the loss of southeastern Asia and the establishment of synthetic production processes in the United States.)

A change in the general aims of economic policy had also taken place because of the European Payments Union. While in the first phase of economic planning by the ERP the investment plans were stressed, now the primary target within the scope of the European Payments Union was the currency system. The ERP was not only a preliminary stage to the free exchange rates between the currencies of ERP countries and the dollar, but it was also to help prepare the possibility for the functioning of international currency funds on the broadest scale. As far as Austria could fulfill these tasks it made a contribution to the whole European currency order by the simplification of its exchange rate system and the fixation of the existing exchange rate of 21.36 schillings to one U. S. dollar for all traffic in goods. (This regulation of October 5, 1950, has been mentioned previously.) 457 652

In the meantime, alterations in the structure of world trade in the early part of 1950 (shortages on the raw material market, increases in prices) caused a change in the commercial policy toward the whole problem. Thus, the discussion of a number of special tasks and principles became necessary (this was also true for Austria). Up to this time the center of gravity in trade policy always lay with the exports, but this shifted to imports considerably toward the end of the year. Comparing quantities became more or less unimportant; the question of "what" in exchange of goods became more important than the question of "how much." The problem now is: what type of goods should be exported and which imports are desirable to make these exports possible? Can the domestic economy, under the given conditions, do without those export goods and does it receive instead of them such goods as it really needs? Or, will the domestic economy lose, by export, such materials that it really requires to maintain its own capacity? Perhaps goods will be imported which, although pleasant and useful, are not really necessary. Such are the questions which were the center of all deliverations concerning trade policy toward the end of 1950. 439 652

In the course of this development one can observe elements of retrogression to the compensation system in trade among the nations (or, to be more correct, among the ERP countries) around the end of the year 1950. Although business is carried out in principle in accordance with the clearance system, 439 457 652

439 457 652 many a business transaction is again of the barter type. At present these do not lie in the sphere of private business transactions but are at the level of state control. If one bears in mind the whole European trend under the system of liberalization and of the EPU, this is a typical retrogression which tends toward bilateralism instead of multilateralism. No doubt the system of compensation will prevail again since the factual renunciation of multilateralism in favor of the clearing transactions has to face, at the present time, quite different conditions than existed at the time when those changes, disputed as they were, offered the only possible solution.

Certain signs of a crisis in the policy of liberalization constitute a further problem which influences the trade policy of single states in recent developments. Confined at first to only a few states, this crisis engulfed a still larger number of European trade partners toward the end of the year, since a liberalization without guaranteed payment (foreign currencies) does not at all fulfill the aim of increasing trade relations. The payments traffic on the clearing accounts which, in last analysis, reflects the traffic of goods between the participating states shows a debit tendency.

Under these conditions, Austria faces a number of special tasks in trade policy, the solution of which, however, is not Austria's responsibility alone. Above all, the task is to reach agreements in which the Austrian economic potential can be fully utilized and which afford the possibility of adapting to developments rather contrary to the agreement terms. Austria offers its partners goods (such as timber, magnesite, steel and iron) which are needed all over the world. At the same time, there must be readiness to accept finished goods for deliveries of these vital goods. Problems of prices and of competition (aside from the increase of productivity in the total economy) must be solved in a way which diminish the disadvantages of the non-elastic clearing traffic without producing, on the other hand, unbearable consequences in the policy toward foreign currencies. It must be the most important task of the Austrian trade policy to secure the import of such goods as Austria needs to maintain full employment and, thereby, social stability

434 schillings in 1937. Although this increase from 1948 to 1949 was caused mainly by changes in prices, the fact remains that the gross national product increased in 1948 by 15 per cent and in 1949 by another 12 per cent. Thus, the prewar level was [433] approximated. The increase of capacity and at the same time the increase of the gross national product in the years 1948-50 is due to the rise in productivity of the whole economy. However, further increase will be even more difficult because the utilization of capacities and of available labor reserves will advance. Although industrial production had reached a level in 1947 equal to 56 per cent of the 1937 level (in 1949 119 per cent and in 1950 140 per cent of the prewar volume), the productivity increased in the same period from 47 per cent to 79 per cent (in 1949) and 90 per cent (in 1950). Therefore, it still lags behind the prewar period. The same holds true for agriculture; the total production (agricultural and livestock production on the basis of 1937) reached only 55 per cent of the 1937 level in the year 1947, 80 per cent in 1949 and approximately 84 per cent in 1950, but the productivity reached only 90 per cent.

[439] Remarkable progress was attained as compared to the years 1945-46. By its own efforts and with the help of foreign aid Austria could satisfy the urgent demand for imports and the volume of imports was increased above the prewar level. The exports, however, lagged behind as measured by the quantum-index. The same holds true for the balance of services. On the basis of economic data the balance of payments of Austria in 1950 is presented in the following table.

Explanatory notes to table:

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a. Quoted in dollars due to change in exchange rate.
b. Calculated in dollars for 1949 and 1950 by the Oesterreichische Statistisches Zentralamt.
c. Other services.
d. Up to June 1950 including drawing rights.
e. Among them aid deliveries in form of credits; no decision has been made about the obligation for repayment.
f. Net payment of drawing rights up to the end of June 1950, and Initial Position payments since July 1950.
g. Provisional figure.

IV. AUSTRIA'S ECONOMIC POSITION IN 1951

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The following points are characteristic of the economic trends in 1951.

1. In the monetary field: the tendency in the world economy toward forcing reductions in the credit policy; the figures will be rounded-up by an increase of the bank rates toward the end of the year;

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435 2. In the budgetary field: the approaching end of ERP aid makes it necessary to reduce the price supports still existing;

454 3. In the field of investment policy: a reasonable balance between the investments of the production goods sector and the consumer goods sector is to be prepared; by increasing the offer of goods ready for consumption and export the imbalance in the balance of payments will be overcome as rapidly as possible;

439 4. In the field of foreign trade: the shortage of raw materials and the existing discrepancy between the trade and foreign currency balance (deterioration of the exchange rates) make special laws and measures necessary to promote exports;

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465 5. In the field of prices and wages policy: certain discrepancies in prices, especially in the agricultural sector, make necessary adequate adjustments as well as improvements of real income of wage earners to the level of higher prices;

6. In the field of production and productivity: a general increase of the capacities and the extent of capacities is necessary between the social partners and the abolition of burdens which prevent an increase in production. Adequate relations should be created.

A. International Economics and Austria's Reaction

000 A glance at the representative statistics prove that international development proceeded along quite different lines in 1951 than was expected at the beginning of the year. The steep rise of prices for raw materials, especially those of wool, tin, rubber, which started from the beginning of the Korean crisis have created an ever-increasing inflationary tendency.

aid which wat granted.) The result was not only a very early claim upon direct aid (in the third ERP year, i.e., from July 1, 1950, to June 30, 1951--8,81 million dollars) but also an exhaustion to a very considerable degree of the Initial Position supplied by the EPU in the amount of 80 million dollars. To ease the precarious situation, the OEEC was asked to increase the direct aid and to extend the Initial Position. This was granted by ECA after complicated discussions with regard to the special situation in Austria; at last, amounts of 18,2 and 10 million dollars, respectively, were granted for the period up to June 1951. 457

B. Credits, Wages, Prices and Subsides (Measures and Agreements).

The higher prices of foreign raw materials, their shortage, and the reactions which followed the fourth price and wage agreement reached between the Chambers of Economy (Wirtschaftskammern) in September 1950 led eventually to an actual transfer of the single cost elements, thus endangering the potential exports of Austria designed for the international market. In 1950 the center of gravity in the foreign trade policy lay with the foreign currency policy and was the main concern of the Nationalbank. The existing international shortage of raw materials shifted this center to the planning of quantities of imports and exports. The Austrian Federal Government, therefore, had to coordinate Austrian economy with world economic conditions. A number of economic-political proposals were introduced in the National Assembly which, limited in time to June 30, 1952, were enacted in the last session of the Fall Convocation 1950-51 (ending in February 1951). These were the laws enacted: 652 [439]

1. The law concerning the creation of an economic directorate (Wirtschaftsdirektorium) consisting of members of the Federal Government; it has as its task coordination in the fields of production, prices, food supplies and foreign trade policy. 656

2. An amendment to the price control law (Preisregelungsgesetz) to exercise a rein upon prices; [435]

3. An amendment to the raw materials allocation law (Rohstofflenkungsgesetz) which is supposed to channel raw materials of which there is a shortage toward those goals which are most urgent economically; [433]

bringing new problems of adjustment. These were solved by a new general agreement of the Chambers of Economy (in July 1951), in which the main considerations were: the out-of-line prices in agriculture, the necessity of decreasing the subsidies for imports still existing, and the boosting of tariffs. Special aims of the economic policy were: 652 [435]

1. To restrict the utilization of foreign aid for consumption goods in order to afford a bigger part of the total volume of goods and services for investment activities or, at least, a non-fluctuating part in the case of a decrease in foreign aid. The top aim was a change in the utilization of the gross national product. [434]

2. To balance the agricultural prices which were out of line. In this way, conditions were to be created for an optimal distribution of the available aids through the price mechanism (changes in the constitution of the gross national product). [435]

3. To effect conditions for a new distribution of income; this referred, in the first place, to agriculture and employment in public services, to persons living on state relief and pensionists (for these last two groups an adjustment of the real income was secured by the so-called "Nachziehverfahren"); the real wages of the other wage earners should be kept on the existing level (changes in the personal distribution of the gross national product). [454]

It was not easy to encompass these aims within the concept of economic policy, since automatically secondary and tertiary reactions to these changes were to be expected upon the total price structure. Be that as it may, the immediate results of this agreement were the following regulations:

1. Agriculture received higher production prices for wheat, rye and milk, by which a better market capacity might be obtained (stimulation of the production). [435]

2. The subsidies for the import of bread grains, fodder grains, and raw materials for fats were diminished. Consumer prices corresponded generally to the average (newly calculated) prices of the producer (unless fixed by special regulations). As far as import subsidies continued, they became part of the budget while the incomes from sales were kept on the same level of value as those from the ECA counterpart accounts. [654] [439]

these aims will be discussed later), which becomes more and more urgent because of the decrease in ERP funds, means from counterpart funds for investment aims had to be released to an increasing degree. 457 652

The Austrian government declared, therefore, its readiness as early as the fourth price and wage agreement to abolish all ERP subsidies for imports. In the interest of keeping living costs at the lowest level, also, certain quantities of vital goods were provided at lower prices in 1951. Besides fertilizers and raw materials for fats (which continued to be calculated on the basis of former prices), the prices of wheat and fodder corn were increased but they still remained far below the prices on the world market. In addition, smaller subsidies were provided to support the prices of sugar, glass, drugs, and hides. 652 435 439 654

In spite of the partial abolition of subsidies, they still amounted to approximately 1 billion schillings for the period from October 1950 to June 1951. Seven hundred and fifty million schillings went to the debit of the counterpart accounts and 250 million schillings to the debit of the budget. Further subsidies had to be faced for two reasons: a sinking of the allocated means in the last year of the Marshall Plan (1951-52) had to be taken into consideration; and further means were necessary to continue investments which already had been started.

The agreements, therefore, provided adequate increases in sale prices for the import of individual goods. In spite of these price correction measures by which the difference between the import prices for wheat, rye, fodders and raw materials for fats and the prices on the world markets could be diminished, but not fully absorbed, there still remained a considerable burden on the budget because of the existing prices on the world market and the projected quantities of imports, as well as by changes in the ways of financing (transfer of counterpart accounts to the public budget). Thus, the differences had to be covered by the next balance period, a fact which the government budget 1951-52 had to take into account. This problem will rise again with the end of the Marshall Plan aid in June 1952.

If one considers the results of these agreements as a whole, a clear success had been scored in the prevention of further increases of subsidies, in the improvement of real income of public servants, 652 434

434 pensionists and persons dependent on state relief.
652 The correction of some out-of-line prices was also effected. To achieve these results the gross income of wage earners increased by approximately 6.1 billion schillings, the tariffs by 1.5 billion schillings and the incomes of agricultural workers by 640 million schillings. A flow of money has been effected surmounting by many times the net effect of the transfers in incomes. Future regulations will provide the final easing of tensions caused by the structure of prices and wages. By the same token, the final solution of certain apparent budgetary problems (remaining subsidies) and problems of the economic policy must be postponed, especially in view of social considerations.

435 The increases of prices, wages, taxes and tariffs by the fifth price and wage agreement caused, in many respects, a considerable movement of prices even in fields other than those comprised in the agreement. The intensity of this movement, however, was diminished by the continuing high industrial production (the number of employed reached more than 2 million people in the middle of the year) and by the sinking of prices in the world markets. However, there were a number of secondary, even tertiary, reactions which could not be avoided, although these reactions raised the general level of prices as a result of increasing demands in the second half of the year.

435 The prices of raw materials, however, were
439 stable in the early summer. The wholesale trade index of the Statistisches Zentralamt sank by 0.6 per cent (from 795 to 790; based on the formula 1938 = 100) from the middle of July to the middle of August. This was caused mainly by price reductions of the most important foreign raw materials (wool, rubber, tin), while domestic raw materials and semi-manufacturers (leather, petroleum, gasoline, building materials, aluminum and cellulose, among others) brought higher prices. This backward development led to a rise of domestic prices of raw materials and semi-manufactures so that they approximated the highly increased prices in the world market after the outbreak of the Korean conflict. Special problems in the development of foreign trade became acute because the prices of domestic finished goods had to adjusted to the levels of world market prices.

E. Foreign Trade.

439 457 Austria's foreign trade was naturally effected by the outbreak of the Korean crisis. In the beginning it caused considerable increases for Austrian exports. In the following period, however, import prices rose above export prices creating a discrepancy between the trade balance and the balance of foreign currencies in the spring of the year. A number of legal regulations were necessary. Intensification of Austrian foreign trade, therefore, becomes one of the most important economic-political assignments in connection with the end of the Marshall Plan. (See Monatsberichte for January 1952: "Ausfuhrsteigerung- erstes wirtschaftspolitisches Gebot." Compare especially what is said about the abolishing of the quota, which will not be changed, and about the material supports to raise the export trade, especially the extension of exchange business.)

[648] In the last quarter of the year, a committee of the EPU in Paris was discussing this problem which is of paramount importance to Austria. It stressed the urgent need for further developments in this sector since Austria shows a permanent deficit account in its clearing with the EPU. This deficit reached an amount of 5.4 and 5.5 million dollars in October and November, respectively, while foreign aid in an amount of approximately 8 million dollars was allocated for these two months. The balance must be supplied by the Nationalbank out of its own reserves.

457 648 439 By means of trade agreements Austria endeavors to extend the scope of its obligations to the European area as well as to overseas areas. (In the following, explanations are based on: "Die Handels- und Zahlungsabkommen Oesterreichs" by Dr. Helmuth Boller, chief of the Trade Policy Section of the Bundeskammer der gewerblichen Wirtschaft, Vienna.) Certain progress could be reached. Thus, the lack of trade agreements with the Iberian peninsula could be corrected by the conclusion of a commercial agreement with Portugal. Toward Spain there are only feelers of a trade and political character. Indonesia joined the ranks of overseas agreement partners. New trade agreements were reached with Belgium, Luxembourg, the Netherlands, and Poland to replace former agreements which had expired. Trade agreements were renewed with Argentina, Brazil, Denmark, West Germany, France, Italy, Yugoslavia, Norway, Rumania, Sweden, Czechoslovakia and Hungary in 1951. As a rule, the formation of the goods

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traffic on the basis of hitherto valid agreements were revised and new goods lists for the future worked out. The new agreements are, in general, valid for only one year. Additional payment agreements could be reached with Belgium, Luxembourg, Brazil, the Netherlands, Poland, and Portugal at the same time the commercial negotiations were concluded. (At present there are twenty-three payment agreements.) Payment agreements not connected with commercial agreements now exist with Great Britain, Canada, and Uruguay, and commercial agreements without corresponding payment agreement with India, Ireland, Indonesia, and Pakistan.

If one groups the concluded commercial agreements according to basic common features, one can see that an extensive adjustment of the regulations to the decisions of the OEEC and the EPU took place in the so-called OEEC countries in 1951. Basically, the principle of Liberalization was stressed in all bilateral commercial agreements with OEEC countries in accord with obligations which result from membership in the OEEC and EPU. The lists drawn up are restricted to goods not covered by the general liberalization.

The paramount importance problems about the supply of raw materials caused a remarkable shift toward fixed promises for deliveries. In many cases the partners not only worked out lists for the import of non-liberalized goods but they added additional lists creating fixed promises for the allocation of export licenses in the form of delivery contingents. Austria uses agreements of this kind in its trade with West Germany, France, Italy, the Netherlands, and Portugal. All these agreements with OEEC countries also have in common the basic renunciation of the principle of compensation and its replacement by the so-called "clearing agreement." In 1951 even the last agreement based on bartering had to cede to this principle. The trade agreement with the Netherlands of December 13, 1947, which represents the type of mixed agreement, was replaced by a new trade agreement of February 5, 1951, which actually adopted the standards of those clearing agreements which were reached with other OEEC countries.

The renewed agreements (not in the framework of OEEC and partly only prolonged former agreements) with Bulgaria, Poland, Rumania, and Czechoslovakia do not show essential changes as compared with the preceding year. On the grounds of merely bilateral basis, the

457 balancing of the bilateral trade balance sometimes
048 causes considerable trouble. The trade agreement
439 with Yugoslavia was considerably extended by a credit for goods to the amount of 10 million dollars which Austria granted to that country; the goods have been almost totally delivered. The goods credit, starting with the year 1952, must be balanced by Yugoslavian counter-deliveries. The new discussions about a trade agreement with Yugoslavia were begun on January 7, 1952.

Among the overseas agreements, those with Argentina and Brazil contain very interesting new elements with regard to the techniques of agreements. Thus, for instance, the listing of the items of Austria's exports to Argentina is extremely detailed. One is certain that the establishment of a permanent Mixed Commission with its seat in Buenos Aires will be a success. It is the Commission's task to control observance of the agreement and the development of the goods traffic. In the agreement with Brazil the new method of balancing payments is most interesting because it deviates from the usual scheme. The establishment of annual accounts for the balancing is most remakable. At the end of the year in which the agreement operates, the amounts will be balanced and replaced by a new annual account for the following period of the agreement. It is equally remarkable for the regulation that a payment of a credit account will be demanded only to the extent in which import licenses actually were issued by the competent authorities after ordinary application procedures.

In the first months of the coming year further agreements with Brazil, Bulgaria, Denmark, Greece, the Netherlands, Norway, Pakistan, and Sweden are to be concluded. Existing agreements are to be renewed or prolonged.

457 The achievement of the balance of payments
652 is the aim to which all endeavors of the economic policy must be subordinated. As explained in the foregoing, these endeavors contain those measures which are to restrict the inflationary development. The craft segment of the economy under the direction of the Bundeskammer der gewerblichen Wirtschaft started various measures of material and psychological importance toward the end of 1951. Among these measures was price reduction (see Monatsberichte for November 1951 (No. 31): "Die ökonomische Bedeutung der Preissenkungsaktion").

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[439] This comprehensive aid will cease in the middle of 1952. Austria will be right in stressing the fact that, owing to its far lower level of total economic well-being (as compared to the other ERP countries), the full results of all these measures and investments cannot be forthcoming earlier than 1954-55. Moreover, the further amalgamation of markets in Europe may be expected in connection with increasing competition, by which a reasonable compactness of all new investments within the European Investment Program will be provided. On the other hand, there are a number of most decisive problems of economic policy which must be solved by the beginning of the new fiscal year. The manner of mastering these problems must be of top-ranking importance for the economic and social development of the country. Although the measures taken in the sector of currency and credit policy must not be overestimated in their impact upon stabilizing money values, the increase of production and productivity is a corollary of the organic compactness of the structure of the total economy. In this way single elements may be most fully developed. Bearing this in mind, the appropriate authorities pointed out that the American aid sources, which will be available for only a short time, must be used up in carrying out those economic measures which are considered most important. To coordinate the measures concerning the total economy, the single appropriate ministries have been ordered to make proposals to the Wirtschaftsdirektorium of the government at the earliest possible date. These proposals are expected shortly. They will deal, among other things, with the necessary structural changes of the public budget which take a considerable portion of the gross national product.

Establishment of a balanced budget on the basis of the most economical use of expenditures is one of these. In connection with this, there will take place an organic reform of administration, especially with respect to not burdening the public budget with further expenditures of this kind; strict observance by the appropriate ministries of expenditure limits set in the provisional budget; liquidation of the problems of subsidies. (In relation to the preceding years the budget of 1952 tends to make the government the vehicle of a comprehensive investment policy in view of the decreasing counterpart funds. In this respect the government takes over functions which need most careful consideration from the standpoint of the

B. Developments in the Field of Trade and Payments.

If one considers conditions when the laws of economic policy were issued in the spring of 1951, one will see that the discrepancy between the sharply increasing prices of imports and the lagging prices for exports led to a discrepancy between trade balances and currency balances. This was the case despite shortages of the most important raw materials and in spite of a relatively favorable trade balance. In view of this, not only the direct aid was used up in a shorter time, but the "Initial Position" supplied by the EPU was exhausted to a far greater extent in the counter-value of 80 millions. The deficit eventually was covered by additional funds for direct aid in the amount of 18.2 million dollars from EPU and a sum of 10 million dollars from the "Special Resources" of the ECA, awarded in view of the special conditions of Austria. To an extent it was also covered out of the limited reserves of the Austrian Nationalbank.

The later decline of the prices of raw materials made the reduction process slower. This was the case especially with finished goods because of the natural alterations concerned with the various stages of the program. A number of these goods not only reached the maximum prices in the world market, but also the amount in the following period. The total development is reflected in the table of the balance of payment. The figures for 1949 and 1950 are used for comparison.[1]

[Cf. category 116, pp. 132-133--Analyst]

439 If one examines the structure of these re-
457 sults more closely, one will see immediately that the
652 deficit of the trade balance is by far the biggest burden to the total balance, which is not covered at present by the moderate assets of tourist traffic and the surplus of the transit traffic, plus other receipts from services. This deficit was covered up to the present from ERP funds, which must be replaced in the present year (at least in the second half of the year) by other methods if the import programs are not to be seriously restricted. Any restriction, however, would be most decisive. If reduction of the imports of foodstuffs were undertaken it would result in a grievous lowering of the general standard of living; if one attempts a restriction of raw material imports the plants and factories would have their operation curtailed and partial unemployment would result; if one lowers the import of coal and fuel the general tempo of production will suffer with all the consequences this would have upon the social and economic life of the country.

435 It is clear that none of these alternatives
439 would be acceptable since normal development must be to the interest of Austria as well as the whole of Europe. But where is one to find an acceptable solution? An analysis of the figures of foreign trade gives the following picture:

To begin with, the table shows the development of foreign trade in the last two years as compared to the last year before the war. To make the figures of 1937 comparable with those of 1950 and 1951 (which are inflated owing to currency devaluation), the amounts in new schillings were reduced to the previous schillings value by dividing them by the index of wholesale prices (1950: 553 and 1951: 742).

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	Quantity in Millions of Centners		Value in Millions of Schillings
1937			
Imports	6.2		1,453.7
Exports	3.8		1,217.0
Deficit			237.0
1950			
Imports	8.5	New Schillings	9,200.0
		Old Schillings	1,664.0
Exports	3.5	New Schillings	6,513.0
		Old Schillings	1,178.0
Deficit		New Schillings	2,687.0
		Old Schillings	486.0
1951			
Imports	9.2	New Schillings	14,027.0
		Old Schillings	1,890.0
Exports	3.8	New Schillings	9,635.0
		Old Schillings	1,298.0
Deficit		New Schillings	4,392.0
		Old Schillings	592.0

A comparison shows that the quantity of imports (1951) increased by about 50 per cent as compared to the prewar period, while the value (reduced to old schillings) has increased only from 1,452.7 to 1,890.0 old schillings, i.e., by 30 per cent. Exports reached their prewar volume in quantity (3.8 million centners) but in value in old schillings the increase amounts to only 6.7 per cent (from 1,217.0 to 1,298.0 million schillings).

The fact that the value of imports lags behind the quantity of imports proves that the structure of imports underwent certain alterations. As compared to the prewar era, more goods with a cheaper rate per centner were imported, excluding some mass goods such as coal and bread grains, the dollar-per-centner price of which has doubled as against 1937. Moreover, the development of exports proves that by 1951 Austria had already reached the prewar level in quantity as well as in value. There is, therefore, no blame to be attached for not reaching the aim of the total capacity because the total deficit of 237 million schillings (1937) rose to 592 million old schillings in 1951. The reasons for this development, which tends toward a deficit, lie in large measure in the above-mentioned

439 deterioration of the exchange rate between imports
435 and exports (excluding the far larger import of investment goods). (The investments quota amounted to 6 per cent before the war and rose to 21 per cent of the gross national income in 1951. The comparatively high quota could be maintained, of course, only with the help of ERP funds.) These circumstances also caused difficulties in bigger and economically more powerful states because the real value of foreign aid suffered remarkably by these price developments since the middle of 1950.

439 Normalization of the trade balance must be
652 achieved in regard to both imports and exports. This
454 will be achieved through:

1) The increasing effect of the investments made within the scope of the Austrian Investment Program 1950-52 and by the revised investment policy. These are short-term investments which will be cheaper and more exportable by raising exports or, indirectly, by cheapening unfinished goods. Among these import saving investments only such investments shall be supported (excluding imports for agriculture) as will be justifiable within the scope of a liberalized foreign trade and in the framework of the international distribution of labor. In spite of the basic continuation of big industrial projects (in view of the end of ERP aid and counterpart funds it will not be possible to afford bigger amounts for big projects which will show their effect only after a long period because of financial and credit policy), the necessary shift in the center of gravity toward the typical export industries will remain a characteristic feature (the export industries are craft enterprises and the foreign tourist traffic, both of them real foreign currency earners). In this connection it should be remarked that part of the investments which have been carried out through public investment programs have not yet matured. Owing to the comparatively late start of real investments in Austria as compared to other ERP countries (1950), they will be fully effective only as late as 1954-55.

439 2) Exhausting all possibilities of the existing and future opportunities in the trade policy. Thus, for instance, the new German liberalization together with the new trade agreement opens the German export area to Austrian production so that, with an adequate support, a big part of the Austrian production capacity will be fully utilized. Also Belgium lowered the

restrictions on its imports in order to abolish its accounts at the EPU. There are no restrictions to the imports into Switzerland. France recently has promised to facilitate imports of Austrian goods by abolishing its assets in the trade account. Further potentialities in exports may be found in the Near East. Thus, for instance, Turkey has concluded a "classic trade and shipping agreement" with West Germany as recently as February 16, 1952, under which German participation in the industrialization of Turkey has been secured. 439

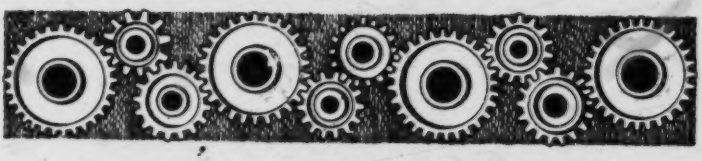
3) An intensive and extensive increase of agricultural production (a step by step decrease in the import of bread, grains and sugar to the prewar level). In doing this the fact was taken into account that in 1938 almost 80 per cent of the normal consumption of wheat and rye and 98 per cent of the domestic consumption of sugar had been covered by domestic harvests. This aim can be reached in view of the more advanced techniques of fertilizing and in view of investments for agriculture. (In the Long-Term Program for 1952 provision is made for a cultivation area for bread grains of 576,000 hectare. This could not be attained because of price policy consideration. It may be possible to carry out the necessary extensions of production by the projected shift in subsidizing the proposed prices in agriculture and by stopping migration from rural areas. At present a law is under discussion pertaining to this.) [241] [652]

4) Categorizing the import goods on the basis of their importance to life; in this case the imports of sugar may be restricted and the import of colonial wares may be revised.

5) An increase of the productivity of plants in order to lower production costs and to build up a firm level of real wages.

6) A new calculation of costs as favored by lower prices of raw materials.

There is no doubt that none of these programs can actually be carried out to full extent since the economy is still in a state of flux and outside influences make current adjustments necessary. But it is most important to find a general line as a center of focus for necessary measures. It will be possible, with the continuous consolidation in certain fields, [Normalization of the trade balance in regard to both imports and exports will be achieved through: --Analyst] 000



THE AUSTRIAN ECONOMY AFTER 1918.

439 The disintegration of the Dual Monarchy was immediately followed by severe economic disturbances. These were by no means small, even in comparison with the position after 1945. The heart of Austria, with its highly developed trade, was suddenly completely cut off from its former inland sources of raw products and markets. The oilfields of Galicia, like the important coal deposits in the lands of Bohemia, Moravia and Silesia, were lost, having fallen to the Succession States, and the loss of the agricultural surplus areas produced a threat of famine.

433 439 The Succession States—Czechoslovakia, Yugoslavia and Hungary—each attempted to build up a national economy, to balance its economic structure and to make itself as far as possible independent of raw and semi-manufactured materials and finished goods. A division of labour which had grown during decades into one complete organism was thus broken up, to the detriment of all peoples living within this territory. For Austria this meant that an intensive system of internal trading suddenly turned into one of foreign trade, where great difficulties had to be overcome. At first even inter-state transport communications were further complicated by barriers created by the Succession States.

728 433 458 The nadir of those days was reached with the signing of the Treaty of Saint-Germain, which revealed the full extent of the catastrophe. Austria's tragic path at that time was blocked by a series of apparently insurmountable obstacles to the procuring of essential foodstuffs, coal and raw materials. Inflation to an extent never before seen set in and led to a selling-out of national assets. The unfavourable basis of the rump economic structure as well as the instability of Austria's relations with foreign countries seemed to doom all her efforts to failure.

648 457 After difficult but very skilfully conducted inter-state negotiations, the governments of Czechoslovakia, France and Italy were persuaded to advance credits to the Austrian Republic. The Allied Powers convinced themselves that Austria, if help came from the League of Nations, would exert her own energies to the utmost in order to put her finances and trade on a sound footing. The will of the Austrian Government to stabilise the budget, demonstrated by the previous abolition of food subsidies (in December 1921), did much to assist these efforts. The Financial Recovery Plan which was signed at Geneva on October 4th, 1922, proved the turning

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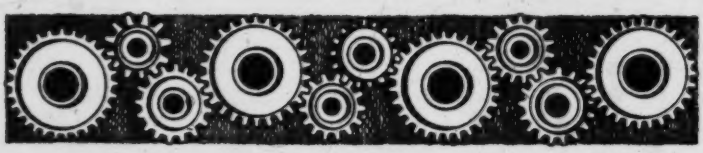


point. The banknote printing presses were stopped and national administration put on a firm footing through drastic measures of economy. 652

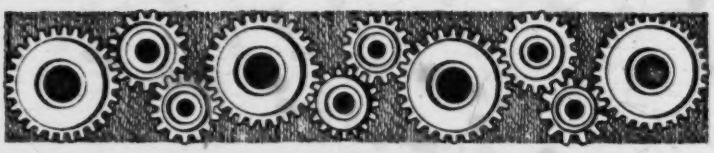
However praiseworthy the efforts which led to a balancing of the budget, the difficulties which still confronted Austrian trade remained considerable. Austria's productive capacity was far greater than its markets (which had shrunk to an eighth of their former size) could possibly absorb. As a great part of Austrian industry was devoted to manufacture, the country was dependent on the import of foreign raw materials (textile, metal and chemical raw materials, hides, furs etc.) and auxiliary materials (above all coal). On the other hand, the social services (unemployment pay, emergency aid, health insurance etc.) which were more extensive than in all the other Danube States made the costs of Austrian production comparatively high. 433 439 [745]

All Austria's efforts were directed towards export. In 1931, 25 per cent of all inland output was exported, 45 per cent of this being industrial production. If one works out the value of goods exported per head of population and compares it with the exports from other countries it will be seen that in 1937 Austria was ahead of Germany, France and the U. S. A., the comparative figures being 39 : 36 : 34 : 28.

As an industrial country, Austria was forced through the ceding of her agricultural surplus territories to rely on the import of foreign foodstuffs. These imports had to be paid for by the export of industrial goods, as had also the raw and auxiliary materials. 457

According to the balance of payment figures for the year 1934, the exchange of commodities, which amounted to 63 per cent of all listed inter-state payments was the most important item of Austria's inter-state economic transactions. Second in importance were payments under the heading of invisible imports and exports (balance of services), which amounted to 23 per cent of the total payments. Austria made a profit on these transactions of about 200 million schillings. That proportion of the goods imported which could not be covered by exports alone was therefore paid for by services in the strictest sense of the word. Of these services, the tourist trade and transit trade were the most important.

Through the loss of former markets, Austria was forced to form new export connections in the north, south, west and overseas. As the goods which had formerly been exported to the east and south-east were not automatically marketable in these 439



439 territories, Austrian producers were forced to adapt their output to these new conditions. This was of course only possible through the painful process of making certain changes in the economic structure.

439 The main bases of Austrian trade, as vital then as now, were:

135 a) the abundance of forests which ensure timber for export as well as for the furniture-making and paper industries.

b) The deposits of iron ore which form the basis of iron and steel production and the iron-working industry.

c) The wealth of water in the alpine districts, constituting an extensive source of power which is being increasingly exported in addition to supplying Austrian industry with current.

d) The recently-discovered inland oil fields (at Zistersdorf).

e) The fashion and luxury-article industry, an export factor of increasing importance.

f) The credit balance of services (tourist trade and transit trade).

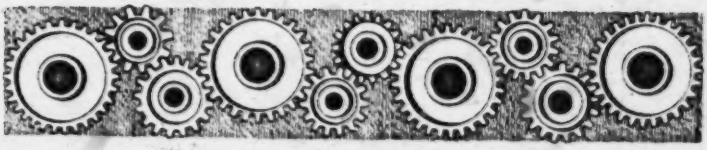
433 It is one of the characteristics of industrial-commercial production that Austria, as a result of her comparative lack of capital, should be at a disadvantage whenever it is a question of mass production. But wherever there is a chance for painstaking finishing, special skill or workmanship, as well as good taste and original ideas on the part of the producer to play a rôle, the prospects of success are excellent. It is not only, as is often mistakenly imagined, the fashion and luxury industries to which this applies, but all the many branches of manu-

472 facturing where it is the quality of the work which counts. These factors are strengthened by the prevalence of small concerns in Austria. Factories with up to 100 employees amount to 75 per cent of the total, those with 100 to 1000 employees to a little over 20 per cent, and the factories employing over 1000 persons to only 4·4 per cent.

652 After the stabilisation of the currency, production and export trade showed

433 a favourable increase between the years 1923 and 1929. Production rose during this time by nearly one third. Then followed the general slump, especially

458 serious for Austria on account of her great dependence on export. The development which had begun so hopefully was now brought to a standstill through the external crisis.



439 Trade stagnation lasted until the middle of the 1930s, when the armament
648 programme of the Axis Powers, Germany and Italy, was launched, to be followed gradually by an armaments race between all the world's most important trading countries. Austria was excluded from the development which led to the catastrophe of the Second World War, firstly through her political differences with the Third Reich (which answered by a cruel economic boycott in order to force Austria to her knees) and secondly on account of her economic structure, which was suited to the production of peace-time goods but not to that of armaments.

Austria had to make a tireless and purposeful search for new markets before she succeeded in forming and consolidating foreign trade connections with distant territories—the United States of America, British India, Japan, China and the Argentine. If this development had not been interrupted by the occupation of Austria in 1938, the results of Austria's successful attempts to revive her foreign trade would doubtless have soon been apparent in the growth of typically Austrian exports.

Even though the visible results of this change of direction may seem modest, it must not be overlooked that parallel with the deleterious results for Austria of the protectionist policies pursued abroad, there were serious internal problems of economic reconstruction to be solved. One of these was and still is the structure and the development of agriculture.

241 For many reasons unconnected with economics, but also in order to increase home
439 supplies of the chief articles of food, agricultural development was encouraged. The most important changes in agricultural production were brought about, particularly in the years 1930 and 1931, by radical economic-political measures. The customs tariffs for these years showed a considerable increase of duties on grain, flour, sugar, cattle and meat, the protective tariffs being even further increased in the following years. The resulting rise in prices meant an increase of cultivated areas and the production of the most important kinds of grain.

231 A further far-reaching measure affecting cattle raising was the regulation of imports
439 of cattle and meat through the setting up of tariff barriers against the most important
654 of the neighbouring States. Apart from this, in April 1932 the import of the most widely sold types of cattle and cattle products was forbidden.

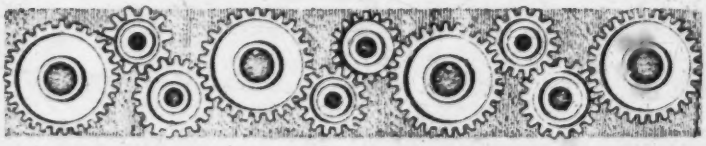
The increase in production resulting from all these measures was bound to increase the difficulties of marketing during the slump. In pig-raising it at last became necessary to resort to curtailment of output (prohibition of pig-raising for the market). An attempt was also made to increase the costs of cattle-rearing and thus limit the supply by raising the so-calledli cencë fee for the import of fodder.

As a stimulant of milk production, a milk-equalisation fund was created to content with sales difficulties, through which the means for the export of dairy products at prices below production costs were raised by the imposition of a tax on fresh milk.

Thus it came about that in the 1930s Austrian products such as standard butter, high grades of cheese and cream could compete successfully on the markets with the dairy products of such leading countries as Denmark, Switzerland and Holland. The western alpine provinces especially profited by this arrangement, but at the same time a great demand was created for home milk products throughout the whole country. Gradually, in the Danube City which has been known from Roman times for its enjoyment of sweet wines, depôts were established where milk could be drunk in the busy streets and on public squares, giving the City a new attraction.

The doubtless necessary encouragement of dairy farming, just at this time, however, brought with it new problems which were aggravated by the effect of the world economic depression. The situation was made worse by the fact that the prices for agricultural and dairy products had sunk far lower than the prices for technical aids to agriculture. The discrepancy between these two sets of prices became still greater from 1933 to 1937. The comparative fixity of wages and the increase in public debts accompanied by sinking prices were not inconsiderable factors in bringing about general deterioration.

Problems of agrarian policy were bound to have a reaction on industrial-commercial economies. Austrian products had to compete with those of countries which had the advantage of considerably lower agricultural prices and thus of a lower cost of living. For a land such as Austria, which in the main can only secure the goods she needs through the export of her own products, it is essential that wages, an important factor in costs, should not be affected too unfavourably by the high price of grain.



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Apart from the necessity for the existence of agriculture, the chief problem is to find a reasonable compromise between the legitimate aims of agriculture and the need of Austrian trade and industry to export at competive prices. This end can only be attained by the pursuit of a suitable economic policy and by an increase of agricultural productive capacity through measures of rationalisation, the discouragement of the drift to the towns and the setting up of a suitable system of administration.

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The period between the two World Wars was too short to allow of full success on these lines, especially in view of the long duration of the world slump.

For the same reasons the efforts to develop the industrial-commercial system along new lines could not be brought to full fruition; attempts to maintain the status quo frequently held up progress. In times of international trade shrinkage any change of policy is not only exceptionally difficult but sometimes also a considerable risk.

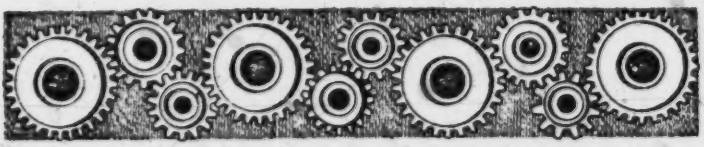
439 648

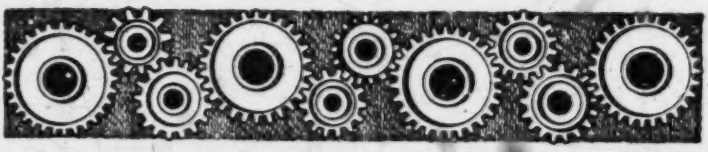
In spite of this Austria made repeated attempts in the course of the years to develop plans for economic rapprochement with neighbouring States. These efforts, however, were doomed to failure through the existence of most-favoured nation clauses and political obstacles. Already in May 1931, conferences were being held in Rome concerning the possibility of increasing trade connections between Italy, Austria and Hungary. From this time onward the preference

THE BANKING SYSTEM IN AUSTRIA.

The structure and economic activities of the Austrian banks since their foundation round about the middle of the last century have followed a different course to that of the credit institutes of the West. For while industrial progress in the latter was based on the active participation of a large circle of interested persons and a well-organised capital market, the development of the far-flung territories of the old Austro-Hungarian Monarchy was left almost entirely to the initiative of the Vienna banks, at first in connection with mechanised transport, and later in connection with industry. Thus, in contrast to the Western type of pure deposit banks, they became universal banks with much more comprehensive functions. Apart from receiving deposits, they gave credit of all kinds ranging from discount credit to long term mortgage credit, dealt in shares and put through stock exchange deals as well as carrying on note emission and syndicate business.

The end of the Monarchy in the year 1918 made it necessary to adapt the Austrian banking system to new conditions. How close the connections of the Vienna banking institutions were with the territories of the old Empire which have since separated from Austria is shown by the fact that of the 127 branches of the Vienna banks which existed under the old Monarchy, not even 10 per cent fell to the new Austria and that, for instance, the Creditanstalt had 16, the Anglo-





bank 34 and the Wiener Bankverein 29 branches outside the territory of present-day Austria.

Adapting the Austrian credit system to the conditions and needs of the Austrian Republic actually took more than one and a half decades. It was not until the year 1934 that this process could be considered as completed with the fusion of the Creditanstalt and the Bankverein. The enormous difficulties involved were still further complicated by the fact that the change coincided in point of time with far-reaching international crises of trade and finance, so that certain grave reactions on the Austrian economy were unavoidable. Notwithstanding this, the latter and its credit system proved themselves strong and vital enough to survive those troubled times and to prepare the ground for the favourable development of Austrian trade in general and the Austrian banking system in particular.

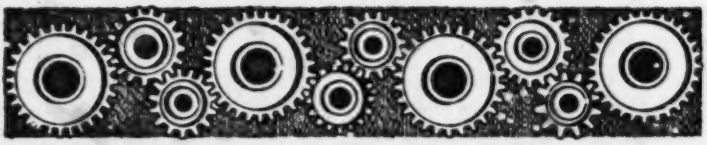
This development was broken off in abrupt and catastrophic fashion through the establishment of the National Socialist regime and the outbreak of the war which soon followed. Although the end of the war restored Austrian independence—in theory, at least—it left behind chaotic conditions—both figuratively and literally a heap of ruins.

In the realm of finance, the first attempts at reconstruction had to be directed towards the re-establishment of the means of payment, a solid national currency being of course a primary condition for the normal

system in foreign trade became the guiding principle, the narrowing down of inter-state trade relations being shortly afterwards still more strongly emphasized through currency restrictions and the clearing agreements connected herewith. The currency devaluations of the gold-standard countries towards the end of the year 1936 created new difficulties for Austrian foreign trade. As devaluation was out of the question and an export subsidy was not considered to be a suitable political-economic instrument, the only remaining alternative was to lower the costs of production. The difficulties of such a course have been proved by practical experience in all countries, as the questions of fixed prices and wages combine to form an insurmountable obstacle to such a development.

Nevertheless Austria still succeeded in linking up with the world boom which began in 1935—1936. In the year 1937 her figures of production were 6 per cent higher than those of the last characteristic boom year of 1929. The tourist trade developed exceptionally favourably, despite the "1000 mark limit" imposed by Germany, and the volume of foreign trade was constantly on the increase.

In view of the heavy burden of debt which the country had to assume after 1918, of the increasingly protectionist tendencies throughout the whole of Europe, especially among Austria's immediate neighbours and considering the severe and long-continued world trade depression, as well as the crises of international currency,



Banking in Austria is carried on chiefly by joint stock banks, some of which have an extensive branch business. A few of the smaller concerns are situated in the provinces. Apart from these are a number of highly respected banking houses and nine provincial mortgage banks. Two special characteristics of the first named are their ability to give individual attention to clients and their valuable foreign connections. The provincial mortgage banks are public bodies which have the principal duty, apart from other banking transactions, of attending to mortgage and municipal credits, financing the loans they grant through the issuing of bonds of mortgage.

Despite the difficulties still to be encountered in the reconstruction of Austria and its economy, the Austrian banks will continue to place their services at the disposal of the nation's commerce in accordance with their traditions, and to assist in securing for the Motherland a brighter future after long years of impoverishment and peril.

THE AUSTRIAN INSURANCE SYSTEM.

Insurance, with its estimation of risk and liability, of success or collapse, forms a mirror of Austria's development from the First to the Second Republic.

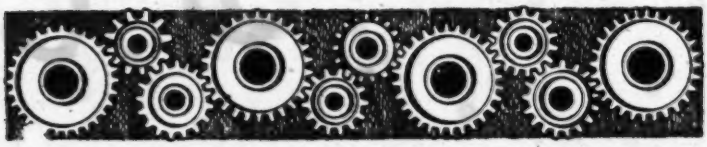
Within the space of not quite thirty years—1918 to 1945—the Austrian insurance concerns were faced with a food catastrophe would have been inevitable and the work of reconstruction have been indefinitely postponed. 727

From the outset, everything possible was done to help build up foreign trade again. At first, in view of transport difficulties, only trade with neighbouring countries came into consideration. The initial results were not great, since all these countries were busy with their own reconstruction and usually themselves needed the goods which Austria wanted. It was only gradually that by means of compensation agreements and later of clearing agreements, the trade relations which in 1938 had been broken off with Austria's most important suppliers and customers could be resumed. 727 439

In this way raw materials and auxiliary products as well as the means of production for industry were brought into the country, thus forming a basis for the recovery of industrial-commercial production. With the improvement of food conditions, the power situation and the increasing exploitation of available resources, output again began to rise.

In 1947 it was possible to reach 61 per cent of the industrial production of the year 1937; for the first time in 1948 output rose above 95 per cent of the former figure. Industrial employment figures for 1947 were 19 per cent and those of the year 1948 were about 30 per cent higher than those of 1937. 433 [464]

The most rapid strides in industrial production were first made in the branches more remote from



433 the consumer—mining, the iron industry, metal works and the chemical and silicate industries, while progress in consumer goods was comparatively slow.

439 This was due to the prime necessity of reconstructing the country's own trade and of a similar need in those European countries which buy goods from Austria. In proportion as world trade again becomes normal, however, the structure of Austrian commerce will take another shape and the share of specific export goods in the total sent abroad will increase. It is thus necessary to avoid excessive development of the industries manufacturing capital goods, or there will be a danger that the problem of supporting undesirable investments which arose just before 1938 may once again rear its head to hinder the progress of Austrian trade.

In any case the threatening economic vacuum of the year 1945 has been overcome and the development of the productive powers of the Austrian economy is growing. But there is still a great deal to be done in the way of reconstruction. This does not mean only the replacement of objects and material destroyed by the war. Still more important is it to work out the new shape of Austrian trade and the forms best suited to it. Conditions are in so far more favourable than those in the period after 1918 in that the work of reconstruction itself offers an opportunity of adapting the new framework to actual economic conditions and thus of gradually completing the

the double task of coping with the results of two wars and of adapting themselves three times to altered territorial conditions.

Despite the political liquidation of Austria-Hungary in the year 1918, Austrian insurance companies were generally able to keep, in one form or another, the position which they had built up during decades of pioneer work in the territories of the newly created states. One may say that with the setting up of the insurance system in Austria-Hungary, an economic and civilising mission had been carried out. Until quite recently the management of important businesses in the territories of the former Monarchy meant—either through the systematic grouping of affiliated concerns, through reinsurance connections or through the establishment of branches of the main concern—a useful fusion of trade interests in the Danube region with a consequent favourable effect on the prospects of peace in this area.

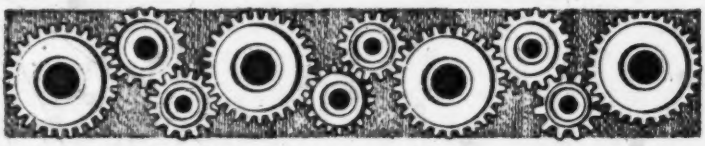
Even though it has been possible to avoid inflation since the Second World War, the year 1945 placed Austrian insurance in a much more difficult situation than that in which it had found itself in 1918. The period of German occupation had left behind it an unenviable inheritance. There was first the direct effect of

war on the country, then the occupation of Austria and its division into zones, with ensuing damage to trade, the devaluation of the compulsorily accepted German state bonds, with the complicated problem of "German property", and finally the disappearance of the basis for Austrian insurance in a number of neighbouring states.

Just as before, the Austrian insurance organisations attach the utmost importance to international connections. These have always been of the best and it was luckily possible to resume them quickly after the end of the war and the restoration of national independance. This explains why in Austria—in contrast to other European countries—there has never been any difficulty over coverage even during the first post-war hardships, rearrangements of reciprocal insurance necessary after separation from Germany being carried out smoothly and without friction. Austrian insurance firms are untiring in their efforts to consolidate their position as far as possible in the international re-insurance market. The Austrian National Bank appreciates the desirability of this and has facilitated dealings in foreign exchange within the framework of its limited powers.

Further development of life insurance business, however, will depend on problems connected with the devaluation readjustment of Austrian commerce which had been forcibly interrupted in the year 1938. The former successes of Austrian commercial policy justify the assumption that this goal will be reached in the not too distant future. It may also be assumed that the experience which the whole world had of the results of exaggerated protection just before 1938 will have created a more favourable attitude towards free trade, thus ensuring that Austria's efforts to increase her foreign trade will fall on more fruitful soil than before. The possibilities of internal trade in Austria are not sufficient to give a nationalist economic policy a chance of success. Foreign trade will always remain a decisive factor for the Austrian economy and thus all other commercial measures can only be considered in the light of its demands and of its development.

The progress made since 1945 has shown that Austrian economic policy is not treading outworn paths, but is adequately adapting itself to the needs of the moment. Government intervention in questions of price control, rationing, foreign trade etc., which proved necessary in the year 1945 owing to the situation at that time was gradually been dropped as soon as this became possible. Financial conditions, which were in a state of complete disorder, have been so far straightened out that money is once again able to fulfil its function in commerce as a means of exchange and as a standard of values. The path which has been followed from the "Schalter-

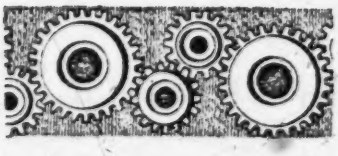


652 gesetz" (Bank Re-opening Law) to the Schilling Law, the Wage-Price Agreement and the Currency Reform Law is a perfect example of wise and experienced currency regulation worthy to be recorded in history alongside earlier Austrian success in this field, the best-known of which is the credit and currency policy of the old Austrian-Hungarian Bank.

439 A comparison of the present state of Austrian trade with the position in 1945 must tend, in view of the many obstacles with which reconstruction had to contend even though there was generous foreign aid, to arouse confidence in the commercial future of Austria and finally banish the legend of her non-liability to the realm of fable.

of the capital of existing businesses and other questions of the money and capital markets. At the moment interest is centred chiefly on the coverage of life insurance risks. The improvement in living conditions for the Austrian people is already beginning to have a favourable effect on new business in life insurance, although the social insurance system which is very highly developed in Austria leaves less margin for private insurance than in other countries.

Economy, perseverance and optimism characterise the Austrian insurance system, which is in itself a barometer of Austrian trade.



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to capitalistic mass production methods. Thus at the Vienna Fair one finds a varied profusion of articles and goods. On the stalls and in the various departments in the halls and pavilions are to be found samples of all the industrial, commercial or agricultural goods produced in Austria, from the simplest tools to complicated precision and tool-making machinery, from building materials to the most modern power plant. Commerce, industry and agriculture unite here to present a complete picture of the Austrian economy.

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Agriculture plays a big rôle in the Fair, which not only provides farmers with an opportunity of selecting their requirements in tools and machinery but also a choice of advertising methods to aid them in selling their own products. The latest developments in many fields are displayed with pride—stock-raising, grafting, crossing, products of the soil, qualitative and quantitative record achievements of every kind from field, stable, vineyard and forest.

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The Vienna Fair, which is for the Austrian producer the most successful sales market and the most effective propaganda organisation at his disposal, is for the foreign producer not merely a place where he can find just Austrian products and customers. So many foreign firms take part that apart from Austrian goods, eastern and south-eastern European wholesale and retail trades are well represented. In Vienna producers, traders and direct consumers meet from the whole of Europe and from the Near East as well as the Balkans, offering many possibilities of transit deals. Here the agrarian East of Europe and the industrial West exchange their wares.

The Vienna Fair is international and is open for all commodities and to all firms from all countries. There are at least 19 countries to be found regularly represented

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at the Vienna Fair: Belgium, Bulgaria, Denmark, Germany, France, Greece, Great Britain, Italy, Yugoslavia, Holland, Poland, Rumania, Sweden, Switzerland, Spain, Czechoslovakia, Turkey, Russia, Hungary and the USA. To these must be added overseas colonies and dominions which often send goods. The two fair areas of the Messepalast and the Rotundengelände are so arranged that Vienna luxury and ornament goods, textiles, fashions, furs, knitted goods, articles of gold and silver, music instruments, glass and chinaware and leather goods etc. are housed in the Messepalast in the city, while all technical products and articles of common use, all accessories of agriculture, machinery and implements as well as building materials are arranged in the exhibition halls of the Rotundengelände.

Special exhibitions which serve no immediate business purpose but pursue aims of a general commercial or cultural character are always held in conjunction with the sample fairs. These special exhibitions are frequently arranged by the trade organisations. They provide useful information as to internal economic requirements, the high standards of development, methods of work and the trading capacity

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Linz, Tobacco Factory.

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277 The traditional high quality of Austrian tobacco products is due to the use of high-grade foreign materials, chiefly certain oriental tobaccos. These can never be replaced by inland tobacco, since climate and soil do not permit the growth of similar types here. Nevertheless, the inland cultivation of tobacco is encouraged as much as possible.

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●439 The great importance of oriental tobacco to the Tabakregie is shown by the fact that in the course of modernisation of the concern, the important task of tobacco buying was delegated to a branch organisation, the "Austria Einkaufsgenossenschaft der österreichischen Tabakregie im Orient, G. m. b. H., Wien". Its main task was to restore severed connections with the most important tobacco producers in Bulgaria, Greece and Turkey. Hungary, North and South America and the Dutch colonies also formerly supplied raw tobacco to the Austrian Tabakregie, but here there are still difficulties in the way of a restoration of trade which arise from the foreign exchange situation.

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277 The Tabakregie is a very important factor in the Austrian economy. Firstly it acts as a big employer of home labour with an inland sales organisation consisting

9: Rothschild E-4, 5 (no date) 1947 EK1 Austria EK1

ever, one of the most important natural resources of Austria: her forests. In a Europe greatly deficient in timber this is a great asset, and wood has, in fact, been one of the main items on Austria's export list. With an export of 1,236,000 cubic metres of sawn softwood—more than half of the trees are spruce—Austria provided 5·3 per cent of world exports in 1935 and took the sixth place among exporting countries.

What of Austria's resources in minerals and energy? Here the picture does not differ greatly from that presented by other industrial countries, not counting the almost self-sufficient continents of the Soviet Union and the United States: considerable deposits of certain important materials are accompanied by a more or less complete absence of others.

Take the two basic materials of heavy industry: iron ore and coal. Austria is a country with considerable resources of iron ore, 90 per cent of which comes from the famous Erzberg in Styria, where the ore has an iron content of 40 per cent. Production in 1937 was 1,885,000 tons* which—in metal content—represented 0·7 per cent of the world output; about one-sixth of this was exported. Coal, on the other hand, is only to be found in quite insufficient quantities. In 1937, production amounted to only 230,000 tons while 2,657,000 tons had to be imported. On the other hand, lignite is plentiful: an output of 3,244,000 tons required to be supplemented by only 185,000 tons of imports. Some of the lignite deposits are in close proximity to the iron ore deposits in Styria which has greatly contributed to the growth of the iron and steel industries in that district.

There are also considerable deposits of magnesite, lead, copper, graphite, and salt. In 1935, Austria produced 24

* Unless otherwise stated, "tons" always mean metric tons.

9: Rothschild E-4, 5 (no date) 1947 EK1 Austria EK1

Sugar production rose from about 57,000 quintals in 1919–20 to about 138,000 in 1920–1 and to 160,000 in 1921–2. Production of chemical pulp increased from 75,000 tons in 1919 to 102,000 in 1921 and 128,000 in 1922, while exports increased from 17,000 tons in 1921 to 46,000 tons in 1922. Paper production, which was 92,000 tons in 1919 and 94,000 tons in 1920, went up to 128,000 tons in 1921 and to 151,000 tons in 1922.

The industrial situation was further relieved by the crisis which followed the post-war boom in western Europe and the United States. Raw-materials which had been in very short supply in the immediate post-war period were now easily obtainable and the fall in world prices to some extent counteracted the rise in Austrian import prices due to the rapid rise in the value of foreign exchange. Imports of vital raw materials increased quickly.

There is then no doubt that the inflation accelerated the impending recovery. At the same time the extent of the inflation and the resulting distortion of the price structure prevented the reconstruction of industry on new lines. With prices and costs rising almost hourly, speculation became far more important and profitable than the careful consideration of technical improvements and of long-term development. The proper timing of buying and selling—be it labour, goods, or foreign exchange—became the main pre-occupation of business. Perhaps the main thing after 1919 was to get the productive mechanism going in one way or other. This was largely achieved in the inflationary period. But the process of readjustment was still to come.

Inflations normally stimulate exports and discourage imports. For the extraordinary demand for foreign exchange, the "flight from the currency" drives up the exchange rate at a quicker rate than the domestic price level so that exports become cheap and imports expensive.

AUSTRIA'S ECONOMIC DEVELOPMENT

458 This was precisely what happened in Austria. But while
433 exports increased more than imports the balance of trade
439 continued to be unfavourable.[10]

This was partly due to the fact that production in Austria was as yet insufficient to provide exports on any scale; partly because Austrian exports have a high "import content" so that every increase in exports involves increased imports. Also, the fall in world prices in 1920 tended to reduce the margin between the Austrian and the world price level.

Unfortunately, we have no statistics on invisible exports. But there is every indication that these exports increased considerably. Vienna soon regained her importance as a transit centre: by 1920, the weight of goods passing through the great municipal warehouses had already increased over three-times as compared with 1913. The Viennese banks again played an important part in the "Succession States" and the Balkans, and the low value of the Crown attracted an increasing number of foreigners to Austria. The number of foreigners arriving at hotels in Vienna rose from about 230,000 in 1920 to about 330,000 in 1922. On all these scores a considerable income must have accrued to Austria which helped to fill at least part of the gap on the balance of trade.[11]

458 But the low value of the Crown and the insatiable
471 hunger for foreign exchange did not only stimulate current exports. It also led to the sale of capital. Real estate, houses, and industrial shares were sold to foreigners and part of Austria's industry thus came under foreign control. It was in this period that a decisive parcel of shares of the Alpine Montan Gesellschaft, Austria's most important heavy industrial concern, passed into the hands of a group of Italian capitalists from where they wandered on until they became the property of one of the firms belonging to

1 [CA p. 35, CATEGORY 116 -- ANALYST]

cent in textiles, and 3 per cent in the chemical industry. Owing to seasonal factors the percentage was highest in the building trade (35 per cent) and in the hotel trade (22 per cent). But the permanent changes that had taken place since the war and the inflation were reflected in the high percentage of unemployment in the declining war industries ("metals and machinery"), where it reached 30 per cent, in some of the industries which formerly produced for a home market but which were now up against high tariff walls (e.g. clothing 19 per cent, pottery, glass, etc., 15 per cent, leather and hides 12 per cent), in "commerce, transport and traffic" (17 per cent) and among the clerks and professions (10 per cent). This high level of unemployment among the "black-coated" workers and the middle class was due to the inevitable contraction of the State apparatus and of those banking and commercial activities which had flourished so much during the inflation period.[1] The failure to tackle these structural problems courageously contributed greatly to the slow recovery of the home market and to the persistence of unemployment even in the more prosperous years.

One of the most important economic effects of the break-up of the old Empire was the increased dependence on foreign trade. The Empire had to a large extent been self-sufficient and Austria had obtained its foodstuffs and raw-materials from other parts of the Monarchy. These goods had now to be imported from separate economic units and great efforts were required to increase exports, especially of manufactured goods. The structure of foreign trade in that period is shown by the figures on page 40.

With the return of stable conditions and the increase in productivity, both imports and exports increased rapidly. Imports rose from about 1,800 million gold Crowns in

1 [G. category 116, p. 50 -- ANALYST]

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AUSTRIA'S ECONOMIC DEVELOPMENT

AUSTRIA'S FOREIGN TRADE IN 1924

(Million Gold Crowns)

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	Imports	Per cent	Exports	Per cent
Animals	167	6·96	11	0·87
Food and drink	648	27·06	32	2·33
Fuel	198	8·27	2	0·146
Other raw materials	513	21·42	249	18·18
Manufactured goods	868	36·25	1,075	78·52
Total	2,394	100·00	1,369	100·00

1922 to 1,900 in 1923 and to 2,400 in 1924, while exports increased from 1,100 million gold Crowns to 1,120 and to 1,370. Most of the export industries were able to increase their sales abroad. But the adverse balance of trade remained uncomfortably high. In 1924 only 57 per cent of the imports were covered by exports. True, invisible items played an important part in Austria's balance of payments, and tourist traffic, transit trade, and financial services to Eastern Europe were all increasing in this period. Nevertheless, part of the deficit on the balance of trade had to be covered by the sale of securities, mainly to Czechoslovakia, and by short-term foreign credits, mainly from Britain and America.

To find greater opportunity for export, therefore, became a matter of urgent importance to Austria.

"The process of industrial re-adaptation", wrote Layton and Rist in their Report on Austria to the League in 1925, "is therefore not a matter of adjusting production to her home market. She must reorganize her industries for foreign trade. Whether she can find the necessary markets depends partly on the efficiency of her production. It depends far more, however, upon the tariff policy of the countries with which she must exchange her products."

40

[CA CATEGORY 116 p. 50 -- ANALYST]

READJUSTMENT AND CONSOLIDATION

Unfortunately, the tariff policy of the new Danubian states which should have offered the natural market for Austria's and Czechoslovakia's highly developed industrial capacity was by no means conducive to a high level of trade. In their very justifiable desire to industrialize their neglected and backward economies, these new governments increasingly adopted a policy of economic nationalism. They put up more and more insurmountable tariff walls which in the end harmed all the countries within the area and outside it and only benefited a few sectional interests.

Austria tried to meet this problem by increasingly directing her exports (and different types of exports) to other parts of the world. The following figures clearly illustrate this tendency:

DISTRIBUTION OF AUSTRIA'S EXPORTS IN 1922 AND 1924

To:	1922 %	1924 %
The Danube States *	42·1	36·8
Northern Central Europe †	23·9	23·0
Western Europe ‡	23·0	25·9
All other countries	11·0	14·3

* Czechoslovakia, Hungary, Yugoslavia, Roumania.
† Germany and Poland.
‡ United Kingdom, Belgium, Netherlands, France, Switzerland, Italy.

Attempts were also made to conclude special trade agreements. Negotiations for a preferential trade régime with Czechoslovakia in 1925 were wrecked on the rock of Italy's and Germany's objections. Germany even threatened trade reprisals. Austria also tried to stimulate trade by pursuing a very liberal tariff policy. While, by 1927,

439 tariffs had increased to 296 per cent of the 1913 level in Bulgaria, to 144 per cent in Yugoslavia, to 140 per cent in Roumania, and to 137 per cent in Czechoslovakia, the Austrian tariffs had actually fallen to 77 per cent of their pre-war level, a fall which, in continental Europe, was surpassed only in Sweden. But it was obvious that this policy could not be permanently maintained in face of high tariffs elsewhere. After the Geneva Conference in 1927 had failed to achieve tangible results with regard to the reduction of trade barriers, Austria too turned towards protectionism to reduce her dependence on a highly unstable world trade. The world preferred to learn the hard way.

361 What of the position of Vienna? When the new Austria, with its 6½ million people, had to take over the economic
631 and administrative centre of a 50-million empire, containing almost 30 per cent of the population of the new Republic, many people thought that this "huge head far too big for a small body" would prove an insoluble economic problem. Actually it soon turned out that the general process of readjustment, described above, also helped to solve this problem. First, it should be noted that while the percentage of the population living in the *capital* was unusually high, the percentage of the *urban* population was quite normal for an industrial country. It was smaller than, for instance, in Great Britain or Switzerland. The establishment of new commercial and government centres did, it is true, hit Vienna badly. The
[464] reduction in the number of civil servants, banking and commercial employees and the unemployment among lawyers, solicitors, etc., created a burden which was mainly concentrated on the capital.

366 But apart from this particular problem which was
368 slowly—all too slowly—mended, it soon became clear that

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trial output was largely due to measures of rationalization rather than to an increase in the numbers employed. On the other hand, the pressure on the labour market continued. Apart from the structural unemployment inherited from war and inflation—the decline of the war industries, the reduction in administrative and banking personnel, the difficulties of the export industry—the process of readjustment still went on, slowly and haphazardly. Bank mergers, numerous liquidations, etc., all created new friction in the labour market. Walter Lippmann once said that it was the foreign policy of the United States not to have a foreign policy. Similarly it might be said of the Austrian Government of that period that its economic policy was to have no economic policy.

Not only was there no clear idea about the measures required to bring about the necessary and only half-completed changes as smoothly and as quickly as possible; the Government was also overcautious in its own spending policy. There was some expenditure on railway electrification, on agricultural improvement and on other investment and public work items. But this was altogether inadequate. The memories of the recent inflation, the need to maintain the country's foreign credit, the enormous burden of pensions for the great pre-war administrative machine, all made a balanced budget seem the ultimate goal of state finance. Thus unemployment in Austria was considerable even before the world depression. It remained high in 1925 and 1926, decreased slightly in 1927 and 1928, only to rise again in 1929. During the whole period there were at least 10 to 15 per cent unemployed.

Foreign trade was another source of weakness. With the growth of production in Austria and elsewhere, imports and particularly exports did, it is true, increase steadily.

AUSTRIA'S ECONOMIC DEVELOPMENT

AUSTRIA'S FOREIGN TRADE

(in million schillings)

	1926	1927	1928	1929
Imports	2,771·3	3,094·1	3,230·1	3,248·3
Exports	1,706·4	2,040·5	2,202·1	2,169·0

But the adverse balance remained uncomfortably high throughout. The larger part of this deficit—probably 700 to 800 million schillings—was covered from income on the various invisible items mentioned earlier. The remainder is accounted for by foreign borrowing. It has been estimated that between 3,000 and 4,000 million schillings had been borrowed between 1923 and 1930.[8] This would not have mattered greatly in normal world economic conditions, except that a large part of these loans consisted of short-term advances to the banks. A large part of this money was lent to industry on, what was in fact if not in form, long-term conditions. The dangers of a sudden withdrawal of these funds should have been obvious. Moreover it was clearly impossible to continue indefinitely with an import surplus of that size since, in addition to current interest payments, the capital itself would ultimately have had to be repaid.

But it was not easy to find a solution. Austria's demand for her imports—mainly food and raw materials—was highly inelastic and could not be easily adjusted to changing conditions; while her exports—mainly manufactured goods—were increasingly excluded by the tariff walls that sprang up all over Europe. Slow, and sometimes painful, structural changes did, however, take place which prepared the ground for later improvements.

Reference has already been made to the improvements

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in agriculture which reduced the need for imports. Industry, too, increasingly adapted itself to the new conditions. When it became clear that the traditional markets in south-eastern Europe became less accessible and that the outlets for some of the staple exports diminished, both the commodities produced and the markets supplied became more diversified. The export of textiles, for instance, declined from 25 per cent of total exports in 1924 to 20 per cent in 1929 while the share of the newer light and fashion industries increased. An increasing share of exports went to Western Europe and overseas. Exports to Hungary, Yugoslavia, Roumania, and Bulgaria, on the other hand, dropped from about 38 per cent in 1924 to about 27 per cent in 1929. 433 439

The new Austria was, in fact, beginning to find its feet. There were difficulties which were common to all countries at that time and others which arose from Austria's recent past. It was clear that these difficulties were capable of being overcome, given time and effort. Suddenly however the economic progress of Austria, like that of most other countries, was sharply interrupted.

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CHAPTER IV

THE EFFECTS OF THE WORLD CRISIS

AUSTRIA'S economic development in the 'twenties was, as we have seen, largely coloured by her special post-war problems. But when, in the autumn of 1929, the spectacular American boom came to an abrupt end, and depression spread like a wild fire from one country to another, economic events in Austria became far more "synchronized" with those elsewhere. Austria's economic system had largely returned to normal conditions; and it was so integrated into world trade that her experience and her problems were now far more like those of other countries. Events in Austria between 1929 and 1933 thus followed the general world pattern. But Austria was particularly sensitive to outside economic shocks. There are few—if any—countries which are or could be wholly self-sufficient; they all depend to some extent on foreign trade and are therefore affected by the loss of export outlets. In Austria, however, foreign trade played an exceptionally large part. An estimate published in the *German Statistical Year-book* puts imports and exports (in brackets) per head of the population in 1929 at RM. 534 (414) for Switzerland, 288 (193) for Austria, 233 (201) for France, 210 (211) for Germany, 168 (172) for Czechoslovakia, 118 (81) for Italy, 90 (88) for Hungary, 46 (44) for Yugoslavia, 44 (34) for Bulgaria, and 41 (40) for Roumania. Another estimate puts the percentage of manufactured goods produced for export in Austria in 1931 as high as 45 per cent. The drastic fall in world

AUSTRIA'S ECONOMIC DEVELOPMENT

458 [439] purchasing power, followed by an orgy of tariffs, quotas, and currency wars, was therefore bound to hit Austria severely. Moreover, Austria was particularly vulnerable owing to the fact that the financial problems inherited from war, inflation, and foreign borrowing suddenly became acute and led to a severe crisis.

The turning point, as in most other countries, came in the third quarter of 1929. Prices tumbled down, production declined, unemployment grew, foreign trade vanished. The following figures indicate this process of decline in Austria and some other countries.

INDEX OF INDUSTRIAL PRODUCTION

[433] (1929 = 100)

	1929	1930	1931	1932	1933	1934
Austria	100	85	70	61	63	70
Czechoslovakia	100	89	81	64	60	67
Hungary	100	95	87	82	88	99
United Kingdom	100	92	84	84	88	99
U.S.A.	100	81	68	54	64	66
Germany	100	86	68	53	61	80

PERCENTAGE OF WORKERS UNEMPLOYED [1]

[464]

	1929	1930	1931	1932	1933	1934
Austria	12·3	15·0	20·3	26·1	29·0	26·3
Czechoslovakia	2·2	4·5	8·3	13·5	16·9	17·4
Great Britain	10·4	16·1	21·3	22·1	19·9	16·7
U.S.A.	8·2	14·5	19·1	23·8	24·3	20·9
Germany	9·3	15·3	23·3	30·1	26·3	14·9

1 [CF. CATEGORY III, p. 52 p. 63 -- ANALYST]

THE EFFECTS OF THE WORLD CRISIS

IMPORTS AND EXPORTS

Value in national currencies (000,000's omitted)

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		1929	1930	1931	1932	1933	1934
Austria	Imp.	3,263	2,699	2,161	1,384	1,148	1,153
	Exp.	2,189	1,851	1,291	764	775	857
Czecho-slovakia	Imp.	19,942	15,680	11,725	7,459	5,799	6,349
	Exp.	20,485	17,460	13,106	7,329	5,843	7,267
United Kingdom	Imp.	1,111	957	797	651	626	680
	Exp.	729	571	391	365	368	396
U.S.A.	Imp.	4,339	3,114	2,089	1,325	1,433	1,636
	Exp.	5,157	3,781	2,378	1,576	1,647	2,100
Germany	Imp.	13,447	10,393	6,727	4,666	4,204	4,451
	Exp.	13,483	12,036	9,599	5,739	4,871	4,167

These figures clearly demonstrate the extent and the universality of the depression.

The decline in foreign trade, which was everywhere far more severe than the decline in production, affected Austria gravely. The increasing adoption of "beggar-my-neighbour" policies greatly restricted outlets for Austria's manufactured goods. Tariffs rose to incredible heights in central and south-eastern Europe; quotas, import prohibitions, and a hundred and one forms of administrative protectionism blocked the flow of goods.

Austria was compelled, in turn, to resort to increasing protectionism and her agriculture, in particular, was increasingly cut off from the world market. Home food prices were, in fact, maintained much more than prices of manufactured goods, and this resulted in an increase in agricultural production, contrasting strangely with the persistent decline in industrial output.

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The workers, of course, had now to pay relatively higher prices for their essential needs. On the other hand, the stability and purchasing power of another important

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AUSTRIA'S ECONOMIC DEVELOPMENT

458 section of the population was substantially preserved. Even so, to the extent that prices *did* fall, the real burden
435 of debt was increased. The smaller peasants, particularly those in the poorer mountain districts, suffered most and the Government was more than once forced to come to their assistance.

439 There can be no doubt that the growing protectionism reduced the advantages of international division of labour. But there was little choice in the circumstances. The loss of income from exports had to be replaced by home-produced income. While exports declined rapidly (until in 1933 they were only 35 per cent of the 1929 level [2]). Austria's readjustment of production allowed her to cut down imports in the same period to 35 per cent of the 1929 level. This went a long way in solving the long-standing balance of trade problem; but the way in which it was solved was hardly the ideal one. The import surplus, which had amounted to over 1,000 million schillings annually in the period preceding the depression, fell to 848 million schillings in 1930, 870 million schillings in 1931, 620 million schillings in 1932, 373 million schillings in 1933, and 296 million schillings in 1934.

453 The depression thus took its "normal" course in Austria: a fall in the national income and in production, a rise in unemployment, misery, and social tension, accompanied by frantic but unco-ordinated efforts by all governments to stop the catastrophe and to readjust the domestic economic structure. Austria travelled the same road as the rest of the world. But half-way through the crisis, in the beginning of 1931, there occurred an event which suddenly revealed, not only Austria's financial weaknesses, but those of the whole world. To this event, the breakdown of the Credit-Anstalt, we must now turn.

There were two major financial problems in Austria.

[CP CATEGORY 116, P. 63 -- ANALYST]

as one country after another went off the gold standard and devalued its currency. After a period of strict exchange control, lasting from October, 1931, to the middle of 1932, the Government relaxed some of its regulations. "Private clearing" was admitted, first in a restricted field, from which it quickly expanded until it covered the great majority of Austria's imports and exports. The private clearing system consisted in permitting exporters to sell their foreign exchange directly to importers instead of requiring them to hand it over to the National Bank at the official exchange rate. In these private clearing dealings the schilling was actually devalued and found its equilibrium level so that exporters could once again compete in the world market while importers could obtain the necessary "devisen" without further formalities and delays. This *de facto* devaluation of the schilling was finally officially recognized in April, 1934, when the Austrian National Bank revalued its gold and "devisen" resources at the new parity of the schilling. This revaluation of the reserves corresponded to a 22 per cent devaluation of the schilling.

After that date Austria returned to a practically free foreign exchange market,[7] and the stability of the schilling was once again secured. This was a remarkable achievement at a time when most of the other countries in central and eastern Europe travelled in the opposite direction, viz. towards more exchange control and a greater isolation of their economies from the world market. Austria's withdrawal from all but rudimentary exchange control was indeed, as an American economist said, "a unique chapter in monetary history".[8]

Its importance lay not only in preserving Austria's position as a centre for transit trade and commercial and financial services; above all, it rescued Austria's foreign

[CF. p. 64, CATEGORY 116--ANALYST]

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trade from Germany's trade offensive which was so catastrophically successful in the Balkan countries.

But this could not have been done had there not been a general change for the better in the whole economic position.

The ensuing period of recovery forms the subject of our next chapter.

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464 which had passed the 400,000 mark in 1933, fell gradually to approximately 320,000 in 1937. This was, however, still considerably above the level of 200,000 unemployed in 1929. In fact, the problem of unemployment, particularly in the heavy industries and among commercial and administrative workers, remained virtually unsolved. The policy of the Government lay the foundation for a more solid and independent national economy. But it fell far short of an expansionist policy that would have ensured the full use of the country's human and material resources.

341 433 Of great importance was the conspicuous progress in agriculture which had been continuous ever since 1920. In a world striving for self-sufficiency, where markets for manufactured exports became increasingly closed, it was necessary to reduce the import requirements for foodstuffs. This object was largely achieved. Taking 1923 as the first normal year in Austria's economic life, we obtain the following picture of development.

	Year	Production (in 1,000 quintals)	Per cent of Requirements
Wheat	1923	2,419	33
	1936	3,678	63
Rye	1923	4,023	76
	1936	4,605	81
Barley	1923	1,719	63
	1936	2,531	85
Oats	1923	3,754	82
	1936	4,029	94
Potatoes	1923	14,262	95
	1936	24,994	100
Sugar	1923	473	31
	1934–6	1,919	99

234 439 Even more important were the structural changes in agriculture. In particular, great progress was made in dairy farming; an industry which had been badly neglected

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in the past although it was excellently suited to Austria's natural conditions. In spite of increased home consumption an export surplus was now achieved for the first time.

EXCESS OF IMPORTS (−) OR EXCESS OF EXPORTS (+)
(in quintals)

	1923	1936
Milk	− 200,000	+ 114,000
Butter	− 16,000	+ 35,000
Cheese	− 43,000	+ 31,000
Condensed milk	− 80,000	+ 300

In foreign trade, too, considerable advances were made. Foreign trade did not, it is true, recover to the same extent as production. Even in 1937 Austrian imports, amounting to approximately 1,500 million schillings, were only 45 per cent of the 1929 value, while exports in the same year (approximately 1,200 million schillings) were only 55 per cent of the 1929 value. Moreover, the recovery of Austria's foreign trade was less marked than elsewhere, and Austria's share in world trade fell from 1·12 per cent in 1929 to 0·93 per cent in 1937.

The volume of foreign trade, therefore, did not increase as much as was desirable. But the balance of trade became much more favourable than it had ever been. When, after 1933, foreign trade began to revive, exports increased to a greater extent than imports. In spite of the growing volume of trade, the import surplus therefore remained at a low level. For the period 1933–7 it amounted to about 320 million schillings per year, as compared with more than 1,000 million schillings in the years before 1930.

Moreover, the gap of 300 million schillings or so was easily covered by Austria's income from various other sources, and it was now no longer necessary to raise foreign loans on that account. Income from tourist

influenced the economic structure which emerged in these last years of Austria's independence. Two factors, in particular, were of importance: the changeover from a democratic to an authoritarian régime; and the rapid growth of the German trade offensive in south-eastern Europe.

At home, the most obvious results of the destruction of democratic institutions were of course to be found in the political field. But there were also important economic concomitants. The dissolution of free trade unions and of other democratic bodies eliminated every organized force which might have safeguarded the share of the mass of the population in the national income. While production as a whole returned to and even surpassed the 1929 level, the production of consumption goods—contrary to the experience in most of the other countries—remained far below it. The trade revival came largely from increased exports, rearmament, and public works.[7] The strong cartels which covered a large part of Austria's industry (e.g. in the iron and steel trades, in electrical engineering, in chemicals, rubber processing, sugar refining, in the paper and brewery trades, etc.) absorbed a large proportion of the rising national income into profits, and the revival failed to spread to the consumption goods industries which remained depressed and were a source of unemployment.

The external effects of the changed political situation were even more marked. In the inter-war period, and particularly after 1929, when tariffs, quotas, currency wars, etc., became the order of the day, the economic relations between most countries ceased to be governed by transactions between private traders. Foreign trade increasingly became the concern of governments, and economic policy a special aspect of foreign policy. Austria

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was no exception and it is in this field that particularly grave mistakes were made in the period under review.

As early as 1931, when Austria was still a democracy, a dangerous and harmful attempt was made in the international field to solve the growing economic difficulties. Dr. Schober, a member of the small Pan-German group in Parliament and Foreign Minister in the Coalition Government of the day, entered into secret negotiations with Dr. Curtius, the German Foreign Minister. On March 19th, 1931, the world was suddenly informed of the intention of the two governments to form a customs union. The plan found instant and wholehearted support in Germany. In Austria there was no enthusiasm about it outside the ranks of the Pan-Germans, and many Austrian industrialists were gravely disturbed by the prospect of falling completely under German control. But it was mainly in France and Czechoslovakia that the full implications of this Pan-German move were immediately grasped. Only a few days after the scheme was announced, on March 26th, Dr. Beneš, the Foreign Minister of Czechoslovakia, explained to the members of the Foreign Affairs Committee that the customs union project raised the question of the *Anschluss* indirectly as a customs union between unequal parties was certain to destroy the independence of the weaker.

Fortunately the project did not materialize. The growing financial difficulties of Austria and the need for foreign help, which Germany was neither able nor willing to provide, induced the Austrian Government to give up the plan for a customs union. A few days later, on September 5th, the Permanent Court of International Justice decided by a narrow majority—eight votes to seven—that a customs union would be incompatible with Austria's obligations under the Geneva Protocols.

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RECOVERY

Thus Austrian independence and European peace alike were given another breathing space. But the active part which Austrian politicians had played in this German attempt towards central European hegemony could not but harm Austria's economic relations with some of her neighbours. Suspicion about German designs in Austria grew. Czechoslovakia, in particular, turned away from Austria. Trade relations with that country were of paramount importance to Austria for both political and economic reasons. It was all the more regrettable that Czechoslovakia moved from second place on the list of Austria's foreign trade partners to fourth: between 1929 and 1937 imports from Czechoslovakia declined from 18 per cent of total imports to 11 per cent, while Czechoslovakia's share in Austrian exports fell from 14 per cent to 7 per cent.

With Hitler's rise to power, Germany's expansionist desires became naked and unashamed. It was no longer a question of a customs union; the outright annexation of Austria by Germany was put on the agenda. In these uneasy years between 1933 and 1937 Austria managed fairly successfully to escape the monopolistic domination which Germany imposed on most of the Balkan countries by commercial means. Though Germany continued to head the list of Austria's imports and exports, it never obtained a dominant position. In fact, its influence actually declined slightly during these years. Between 1929 and 1937, Germany's share in Austria's exports declined from 16 per cent to 15 per cent while imports from Germany fell from 21 per cent to 16 per cent of the total.[8]

Austria did not, however, escape the indirect effects of Germany's trade offensive. Germany's policy of monopolizing Balkan trade through bilateral agreements, bulk

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purchases, accumulation of debt, etc., was, first, designed to gear the economic structure of these countries to the needs of the German war economy. But it also served to close the traditional export outlets of Austria and Czechoslovakia, and so to weaken their economies.

PERCENTAGE SHARE OF GERMANY, AUSTRIA, AND CZECHOSLOVAKIA IN THE FOREIGN TRADE OF THE SOUTH-EAST EUROPEAN AGRICULTURAL COUNTRIES (BULGARIA, GREECE, ROUMANIA, TURKEY, HUNGARY, YUGOSLAVIA)

	Imports		Exports	
	1928	1938	1928	1938
Germany	17	35	16	34
Austria	11	5	16	7
Czechoslovakia	14	7	8	6

Alternative outlets had to be found. Austria should have obviously tried to expand her trade with the Western democracies, with the Soviet Union, and with America and the Dominions. This would have created closer ties with the countries on whose active assistance Austria's security ultimately depended. And it would have enabled Austria to obtain in payment for its exports free exchange which could have been spent in the most advantageous markets. Austria's light and fashion trades offered every opportunity for expanding and diversifying her export markets in this way.[10] But Austria's fatal foreign policy in the years from 1933 to 1938 was matched by an equally disastrous foreign trade policy. The new authoritarian régime failed to establish close and friendly relations with democratic Czechoslovakia and with the other peace-loving powers. It pinned its hopes for security on the

promises of Fascist Italy,* and, in 1934 signed the Rome Protocols. This was an agreement signed by Italy, Austria and Hungary providing for a preferential trade régime for these countries. Hungary was to find improved outlets for her agricultural exports while Austria and Italy would obtain preferential treatment for their industrial products. Behind all this, however, loomed Italy's attempt to obtain a dominant position in central Europe.

The economic results of the Rome Protocols were anything but satisfactory as far as Austria was concerned. There was no great expansion of trade with Hungary. Exports to Italy increased quickly, it is true, particularly after the outbreak of the Abyssinian war and the imposition of sanctions in which Austria failed to join. Italy moved from fourth to second place on Austria's export list. In 1936, 14 per cent of Austria's exports went to Italy, as compared with 10 per cent (out of a much smaller total) in 1932. But Italy was neither able nor particularly willing to pay for these exports. Austria's export surplus to Italy amounted to no less than 70 million schillings in 1936 and 93 million schillings in 1937. Thus Austria, herself in sore need of capital investment in her industry, was compelled to make loans to Italy. The same applied to a slighter extent to Germany, where the clearing agreement also led to the accumulation of a credit balance in Austria's favour.[11]

It was not until 1936, when Italy's incapacity to pay became obvious and when the Italian Government tried to change the terms of the agreement in its favour, that an effort was made to re-direct Austria's trade. A preferential treaty was concluded with Czechoslovakia, in spite of severe opposition from Germany. Other attempts for

* Instead of helping Austria, Mussolini, in the event, congratulated Hitler on his successful annexation of the country.

[CF. CATEGORY 116, P. 78 -- ANALYST]

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459 freeing trade from the straight-jacket of bilateral clearing agreements followed. This was partly successful; exports to "free payment" countries increased from 32 per cent of total exports in 1929 to 36 per cent in 1937. But this was a rather poor showing compared with Czechoslovakia, where the share of exports to free-exchange countries increased from 36 per cent to 52 per cent in the same period. There was no time for obtaining any better results for on March 11th, 1938, German troops crossed the Austrian frontier.

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THE SHADOW OF GERMANY

Fifth Column was a powerful weapon in Germany's arsenal for her attack on Austria's independence.

AFTER THE ANNEXATION

The economic implications of the occupation of Austria were as little appreciated at the time as its political and strategic significance. In fact, Germany's war potential was greatly strengthened as a result. Austria's iron ore, magnesite, timber, electric power, etc., afforded valuable relief to Germany's war industry which was beginning to run short of raw materials. Austria also provided a source of skilled manpower which could be harnessed to the growing efforts of the German war economy.

Moreover, the gold and foreign exchange reserves found in the Austrian National Bank were of great immediate importance in helping Germany to build up emergency stocks for the coming war. Heavily indebted to her clearing partners, Germany had found it increasingly difficult to obtain foreign exchange for even the most essential raw material imports. The gold reserve of the Reichsbank had fallen to the extremely low level of RM. 76 million. They were now able to lay their hands on a gold reserve of more than 420 million schillings, or roughly RM. 200 million. Moreover, Austria had at that time some 200 million schillings of clearing balances to her credit (mainly from Germany and south-eastern Europe). Thus Germany was, at one stroke, rid of the problem of paying Austria and was able, with the help of Austria's claims, to settle her long-standing debts in the Balkans.

Finally, the occupation of Austria enabled Germany to outflank Czechoslovakia's strategic defences, and opened the road towards the east. The economic encirclement of eastern Europe was also complete. The Balkan countries had become dangerously dependent on trade with

AUSTRIA'S ECONOMIC DEVELOPMENT

728 Germany which had swallowed up one of their important customers and suppliers—Austria had up till then occupied the third or fourth place in the foreign trade of most of these countries. Politically and economically Germany had become the complete master of the whole area.

471 For Austria, of course, the occupation meant far more than a dangerous shift in Europe's economic balance. Her economy ceased to exist as a separate entity; within a very short time it was completely absorbed into Germany's war economy and her "New Order".[5]

The Germans were able at once to lay their hands on all Austrian State property. The railways were incorporated into the German railway system, the State forests taken over by the German State. The State monopoly in salt was given to the Deutsche Bank, and the tobacco monopoly taken over by a private German company. Far more important, however, were the shares of the Credit-Anstalt which were owned, at that time, by the Austrian Government. After the reorganization of the Credit-Anstalt in 1931, 49 per cent of its shares were taken over by the Government. These, together with some others, were now transferred to the Deutsche Bank. Since at the same time the only other important bank, the Zentraleuropäische Länderbank, came under the control of the Dresdner Bank, practically the whole of Austria's banking and insurance business had passed into German hands.

471 It must be borne in mind, in this connection, that the Central-European banks held a key position in the industrial life of their countries. It has been estimated that the Credit-Anstalt controlled almost 90 per cent of Austria's industry and agriculture. Moreover, the Austrian banks and financial institutions still possessed considerable investments in the Balkan countries, particu-

[5] [CA p. 91. CATEGORY 11c -- ANALYST]

UNEMPLOYMENT

UNEMPLOYED IN RECEIPT OF BENEFITS IN THOUSANDS

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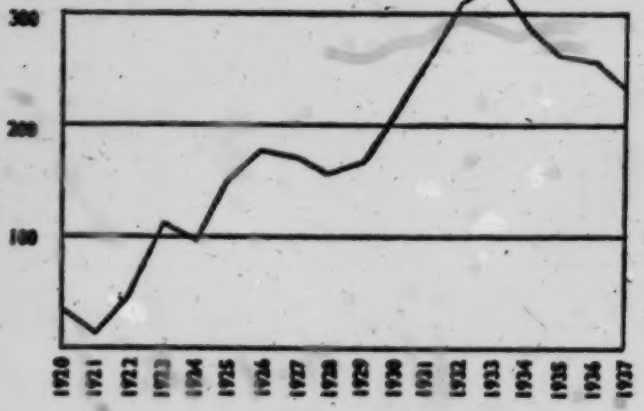

IMPORTS AND EXPORTS OF COMMODITIES

IN MILLION SCHILLINGS

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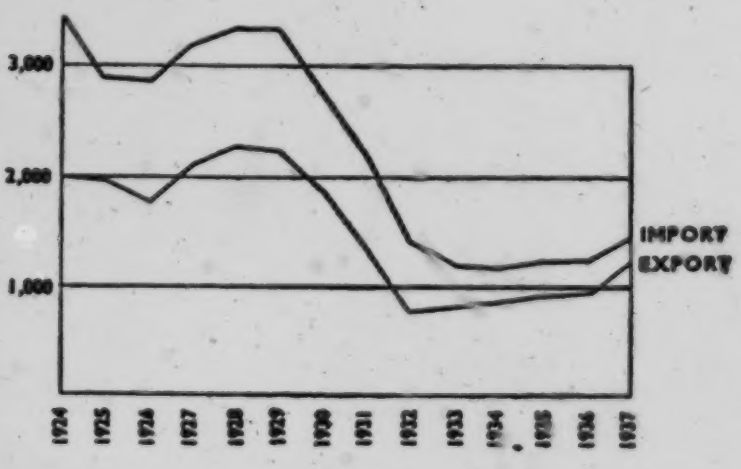

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